DISINVESTMENTS IN SELECTED PUBLIC UNDERTAKINGS IN INDIA: PROBLEMS AND PROSPECTS

ABSTRACT
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ABSTRACT

Soon after becoming an independent country, the planners adopted strategies for a self reliant and economically independent India. It called for heavy investment in infrastructure hence the concept of Public Sector Undertakings (PSUs) emerged. Since 1947 these PSUs have been playing a major role in Indian economy; but they did not perform as expected in a corporate world. The scholars were and still are divided on the performance measures of PSUs. Some maintain that the PSUs were not established to generate revenue or make surplus but to serve the society while the other argue that PSUs have no right to waste the hard earned money of tax payers. The debate continued and the government in the year 1991 started opening up its economy and giving up protection to PSUs in some form or the other. It started taking out some of its share and selling it to public, generally termed as **disinvestment**.

The researcher made an attempt to find out if the disinvestment resulted in the desired objective or not. the performance of PSUs after the disinvestment and has used established measures of financial performance like ratios, return on assets, return on investment and other similar financial indicators to arrive at conclusions.

The thesis has been divided into seven chapters. First chapter provides background and evolution of Public Sectors Undertakings in India. It is followed by the contribution of PSUs in Indian economy and history of PSUs. Thereafter, a brief description of methodology for disinvestment has been discussed. In Chapter II background of disinvestment and the need for disinvestment, rationale for disinvestment and major Policy Guidelines have been discussed. These guidelines include bidding procedures, global scenario and World Bank Guidelines. The important features of Disinvestment Commission have also been discussed in this chapter.

In Chapter III survey of literature has been provided. This section, first explain how has the survey of literature been organised and then it talks about economic and political issues and the historical perspective. Governments at central level ahs played major role in the disinvestment process. Some governments have supported the move while some have opposed. Accordingly the pace with which disinvestment drive has moved reflects the form of government and its thinking. Hence the disinvestment during the period of various governments has been

discussed in details. The period, importantly includes Congress led government, United Front Government Period and BJP Government Period. The chapter also discusses post sale related issues of select PSUs and post closing adjustments. This has enabled the researcher to identify the research gaps. At the end of this chapter summary of literature review has been provided.
In chapter IV the Research Methodology ahs been discussed. It includes introduction to research methodology, statement of problems and objectives of study, sampling procedure and justification of the sample, hypotheses and testing procedure, methodology of data collection, analysis and presentation. Chapter V analyses problems and prospects of disinvestment, major issues, and employees related issues and legal issues. In chapter VI, critical analysis of prospects of disinvestment has been discussed. Economic analyses of select PSUs, critical analysis of select PSUs and major problems resulting from disinvestment have been discussed. Thereafter hypotheses have been tested using appropriate tools. In chapter VII, conclusion and suggestions have been given.

Brief account of each chapter is given below.

Introduction:

In pre-independence era, there were hardly any "Public Sectors" in our economy. Indian Railways, The Post & Telegraph, The Port Trust, The Ordnance and the Aircraft Factories and a few more Government controlled undertakings were there in the name of PSUs. After independence, India adopted the road of planned economic development through Five year plans. In this India opted for dominance of the Public Sector firmly believing that political independence without economic self-reliance would not enable the Government to fulfill the aspirations of the countrymen. The passage of Industrial Policy Resolution of 1956 and adoption of socialist pattern of society as the national economic goal of the country built the foundation of the dominant public sector as we see it today. It was believed that a dominant public sector would reduce the inequality in the distribution of income and wealth and advance the general prosperity of the nation. During all five year plan periods the PSUs emerged as major economic entities of the country. The investment in public sector enterprises grew from Rs. 29 Crore in 5 PSU on 01.04.1951 to Rs.2,52,554 Crores in 240 PSUs on 31.03.2000 and to

the tune of Rs. 5,55,740 crores in 2009. This shows how important PSUs were for the government.

Public Sector Undertakings (PSUs), were given a special role in India's planned economy, grew both in terms of numbers and investment for over four decades from the early 1950s. At the commencement of the First Five Year Plan there were five PSUs with a total investment of Rs. 29 crores. At the end of the Seventh Plan in1990; there were 244 PSUs and the investment in them had gone up to Rs. 99,329 crores. Although disinvestments had started from the early 1990s, at the end of the Eighth Plan in 1997, investment had soared to Rs.213,610 crores. At the end of the fiscal year 2000-01, PSUs had a total investment of Rs.274,114 crores. The PSUs made a significant contribution to industrial production, 100 percent in lignite, over 80 per cent in coal, crude oil and zinc, almost 50 percent in aluminum and over 30 per cent in finished steel.

In terms of profitability, the PSUs showed diverse patterns. In 2000-01, 122 enterprises made a profit with the top 10 among them - giants such as the Oil and Natural Gas Corporation (ONGC), the National Thermal Power Corporation (NTPC), the Indian Oil Corporation (IOC) and the Videsh Sanchar Nigam Limited (VSNL) – accounting for close to 70 per cent of the total net profit of Rs.19, 604 crores. Sector-wise, petroleum, power and communications contributed to 60 per cent of the profits. During that year, there were 111 loss-making enterprises with a total loss of Rs.12,839.00 crores.

The major contributors to the losses were Hindustan Fertilizer, the Fertilizer Corporation of India (FCI), Bharat Cooking Coal, and some other enterprises dealing with coal. The return on investment of all PSUs taken together remained low - post-tax profitability being only about 5 per cent on capital employed. According to reports "The public sector in India, which was perceived to be the vehicle of speedy economic development, has run into rough waters. It not only failed to produce surpluses which it was expected to generate for future growth, but the return on investment remained poor. "The question that is examined is whether disinvestment and privatisation can lead to better results."

Disinvestment Background and rationale:

As the PSUs did not result in desired objective as perceived by many, and also the economy at international level was opening up, the government started the process of loosing some of its control on PSUS by disinvesting and giving part of ownership to private persons. Looking at the year 1970 the performance of most of the public enterprises was far below the expectations. The weakness and defects of public enterprises started manifesting with grave danger to Government and economy in many countries, with no solution in sight. By the mid 1980 globally the political opinion was veering round to the view that the proportion of GNP due to Government economic activity should be reduced to the extent possible and business activities should be left to private sector as far as possible. During the 1980s, collapse of the socialist economy of the Soviet Block, introduction of economic reforms by Russia, East European countries and China knocked the bottom out of protagonists of Government intervention in every commercial activity for the benefit of the masses. The Industrial policy of 1991 started the process of delicensing and except 18 industries, Industrial licensing was withdrawn. The market was opened up to domestic private capital and foreign capital was provided free entry up to 51 % equity in high technology areas. The aim of economic liberalisation was to enlarge competition and allowing new firms to enter the market. Thus the emphasis shifted from PSEs to liberalisation of economy and gradual disinvestment of PSEs. When the crises of foreign debt services was at its peak, a paradigm shift of Government's economic policy orientation originated in 1991 which was a turning point in this regards.

Because of the current revenue expenditure on items such as interest payments, wages and salaries of Government employees and subsidiaries, the Government was left with hardly any surplus for capital expenditure on social and physical infrastructure. Whereas the Government should have been spending on basic education, primary health and family welfare, huge amounts of resources are blocked in several non-strategic sectors such as hotels, trading companies, consultancy companies, textile companies, chemical and pharmaceutical companies, consumer goods companies, etc. Not only this - the continued existence of the PSEs was forcing the Government to commit further resources for the sustenance of many non-viable Public Sector Enterprises.

Because of burgeoning revenue deficit in Central budget year after year on account of current revenue expenditure on items such as interest payments, wages and salaries of Government employees and subsidies, the Government was left with hardly any surplus for capital expenditure on social and physical infrastructure. Huge amount of public resources were blocked in several non-strategic PSEs giving meager return Government is forced to commit further resources for sustenance of many non viable PSEs in absence of exit route. Above all it had to service huge amount of outstanding debt before any money was available for investment in infrastructure. All these Government economic woes led to an obviously straight forward option of divestment of Government stake in PSEs.

Various methods of disinvestment were devised and adopted by the government. Among others it included policies on selection of bidders, determination of reserve price, offer for sale, sale of residual equity by the auction method, strategic sale, offers for sale, auction method and valuation.

A very important development that took place in this direction was the constitution of Disinvestment Commission which made many recommendations through its various reports.

It suggested Strategy and Issues in its report submitted in December, 1996, while underlining the importance of the subject of valuation, discussed three basic approaches to valuation like Discounted Cash flow (DCF), Relative valuation and Net asset value.

Survey of Literature;

Articles, research papers, reports from various committees including those tabled in the parliament, news paper reports and debates in both houses of parliament have been studies to cover the work done by other researchers in this area. In all 166 such references have been quoted. In this chapter efforts have been made to study the research work of various scholars on the subject. The study also includes refereed journals, books, news papers and periodicals and business magazines such as the Business Standards and Business Today. Political commentary from various sources including the library of the parliament and other sources

have been scanned. A perusal of work done by the learned scholars shows that much has been researched on contribution of public sectors, pros and cons of having them in the economy or not. The social aspect of their existence too has been elaborated. But the effect of disinvestment on sectors has not been quantitatively measured like in which direction their stocked moved. What was the impact on their Price Earning Ratio and for that matter on many financial parameters which are considered as nerves of any organization? Hence the researcher thought it fit to study this rather less explored area and efforts have been made in this direction.

The articles reviewed by the researcher so far more or less confirm that no study has been conducted to find out the effect of disinvestment from financial angle especially with reference to improvement in ratio as a measure of financial analysis. Hence the researcher could find a research gap which has been tried to be filled in through this research. How has the researcher tried to fill in this gap, has been done has been discussed in the subsequent chapter on research methodology.

Research methodology:

Survey of literature has established that there exists a gap in the researches carried out by various learned scholars. Majority of them have heavily relied on the theatrical construct and financial information of the firms has rarely been sued to measure the effect of disinvestment. Adequate efforts have not been made to find out what happened in the market prior to the announcement of disinvestment and after the announcement. Following objectives were outlined for this research.

(i) To study and measure the profitability of PSUs after and before disinvestment using ratio as a measure in analysis in general and ratio analysis of specific sectors

(ii) To study the return on total assets pre and post disinvestment

(iii) To study the return on Capital Employed of PSUs

(iv) To study the return on shareholder's equity of PSUs

(v) To study the Return on Investment (ROI) of PSUs in pre and post disinvestment scenario

(vi) To test the hypothesis in respect of above and conclude

The problems and prospects of disinvestment in PSUs can be studied from many angles. One can conclude based on the related researches conducted in the area and the critical analysis of experts reported in various journals, news papers and government reports. However, relying on the published figures in the form of audited financial statements and drawing conclusion from theses figures in the form of accepted financial analysis methods have been considered as objective basis of arriving at conclusion. Hence the present research in general aims at making profitability analysis of selected Indian Public Sector Enterprises - before and after disinvestment. It takes into account the 'impact of economic reforms measures introduced by the Government of India and aims at examining the operational efficiency and profitability of selected Indian Public Sector and to explain the trends in profitability of the select Indian Public Sector in pre and pot disinvestment scenario.

Data was collected from one sources and that is secondary. The main theoretical source has been the RBI annual reports, FEMA / FERA Acts, RBI Bulletins, Disinvestment Manuals, Annual Reports of Companies, CMIE publications, Economic Survey, Budget, News letters of Banks, Occasional papers from RBI economic department, Research papers published in various magazines, Trade Journals, News papers clippings, Text Books on International Financial Management the government reports. Main source for financial information has been the annual reports of the sectors studied.

Database: Information was collected from the PROWESS database for financial ratios and also from **"Database of BS1000, India's Corporate Giants"** published by Business Standard in December 2007. It is the research study of top 1000 companies of India by the Business Standard magazine. Quota sampling is used for selection of sample size. The population is first segmented into mutually exclusive sub-groups and then the chosen were Textiles, Engineering, Pharmaceuticals, Chemicals, Consumer durables, Automobiles, Cement, Steel and Information Technology. Then, judgement is used to select the top 10 units/companies from each segment based on the assumption that top companies would be engaged in active management of foreign exchange exposure and expected to get proper responses to the questionnaire. It is this second step, which makes the technique one of *non-probability sampling. The a*dvantages of quota sampling are the speed with which information can be collected, the lower cost of doing so and the convenience it represents. (Business Standard, December 2007)

Ho_1: Post disinvestment PSUs have not made desired progress

Ho_2: Post disinvestment return on profitability of PSUs has not improved

Ho_3: Post disinvestment return on capital employed of PSUs has not improved

Ho_4: Post disinvestment return on equity of PSUs has not improved

Ho_5: Post disinvestment return on investment of PSUs has not improved

After financial statements were collected, important ratios were calculated taking pre and post disinvestment scenario. The important ratios have further been analysed for specific sectors. Based on the calculation of ratios and the result thereof, the hypothesis have been tested and presented.

Having calculated the ratios of select PSU in the pre and post disinvestment scenario, statistical tests were applied to ascertain if the findings truly reflect the changes or these are by chance only. The relevant tests in this regards are F Ratios and their significance has been tested at 95% level of confidence. First the effect has been measured then tested sector-wise. In most the cases the results have been tested on monthly basis too.

Analysis

The PSU disinvestment programme, to begin with, merely attempted to raise revenue for the government as a part of a soft option to contain its fiscal deficit from becoming unmanageable. The stock market in India has not been an effective instrument to raise investment resources for private business enterprise let alone public sector investment. There are few takers in the Indian private corporate sector who are in a position to take advantage of PSU disinvestment. They are neither willing nor able to take over the management even profitable PSUs. They do not have the funds, technological tools or management skills for running the giant industrial and commercial undertakings in the public sector.

The ability of the PSUs to face up to the hostile competition posed by the TNCs has thus been crippled. The position of not only PSUs but of even the private Indian domestic corporations has also been gravely weakened. This has helped the TNCs to maximise the profitability of their operations in India and take over the PSUs cheaply. The sale of the equity of the Gas Authority of India and the sale of the Modem Foods company in the public sector by the

Hindustan Lever a subsidiary of Lever Brothers, a TNC and the privatisation of the management of Indian Airlines emphasizes this position very well.

Disinvestment schemes devised from time to time to raise substantial revenues for the government by selling the equity of PSUs has obviously lost its charm for the self-styled economic reformers in the government of India, according to Najudappa (1998) The idea of the creation of a "special purpose vehicle" for the holding of the government equity in PSUs, before their sale at a reasonable price as well as arrangements for buy back and cross holdings by PSUs which was toyed with for sometime, has also been dropped. The official policy has now been geared' for the outright sale of PSUs to the TNCs. The talk of the, "drain on the fiscal resources" of the government because of the setting up of the PSUs is, of course, a myth which has been assiduously spread to pave the way for the privatisation-globalisation process to make unhindered headway. There really are not any valid economic or social welfare reasons in official policy making but ideological preference for privatisation of the economy which the ruling elite in India has now accepted and is vigorously pursuing.

It is a simplistic view of the role of public enterprise in economic development and the principles that should govern the measurement of its efficiency that the yardstick of commercial profitability alone should be considered. The fact must be reckoned with that while public enterprise should operate in such a way as to augment public savings, they have also to put up with planned losses in order to provide essential goods and services to the mass of the people which the private enterprises, guided by only the profit maximization motive, will not do. PSUs indeed provide relatively cheap inputs to the private sector and thus help the generation of surpluses in the economy. The point is that PSUs may not directly generate financial surpluses. But those who make large profits by using subsidized inputs provided by the PSUs to them should be required to contribute a fair part of these profits by way of taxes and other savings instruments to augment resources for stepping up overall investment for economic growth according to right order of social priorities. It is indeed wrong mindlessly to flog the PSUs. The easy path of raising the prices of goods and services provided by the PSUs in order to extract surpluses for investment may tend in many cases to be counterproductive and self-defeating. Returns from PSUs can be enlarged meaningfully only by improvements in the efficiency of their operations and fuller utilisation of their capacity which should not be

blocked by imports that are competitive to indigenous production capacities, both in the public and private sectors.

One may conclude that the disinvestment posed some major challenges special with reference to employees as private sector never wanted a huge wage bill to be paid as it was sure to get the same work done with far lesser manpower partly due to efficiencies and partly by exploiting them. This resulted in large litigations. All these issue ultimately affected the bottom line that is the profitability which we have discussed subsequently

Critical analysis

Critical analysis of prospects of disinvestment has been carried out with the help of qualitative data. Profitability analysis, return on investment and return on almost all financial parameters has been analysed in pre and post disinvestment era. Following parameters were used in arriving at the conclusions.

(A) Return on Total Assets

1. Earnings before depreciation, interest and tax to Gross Total Assets called Gross Surplus Ratio (GSR)
2. Earnings before interest and tax to Total Assets (EBIT/TA)
3. Operating Cash Flow to Gross Total Assets (OCF/GTA)
4. Profit After Tax to Total Tangible assets (PAT/TTA)

(B) Return on Capital employed

1. Retained cash flow to Capital employed called Cash Flow Ploughed Back Ratio (CFPBR)
2. Net Profit Before Interest and Tax to Capital Employed (NPBIT/CE)

(C) Return on Shareholders' Equity

1. Profit After Tax to Shareholders' Equity{PAT/SHE)

2. Operating Cash Flow to Shareholders' Equity (OCF/SHE)
3. Earnings Before Interest and Tax to Interest Charges (EBIT/Fixed Interest Charges)

The analysis of the above profitability ratios of selected public sector industries across various sectors during before and after disinvestment. Among others, it shows that the gross profit ratio of Steel industry reveals an increasing trend in, the pre-disinvestment period was 2.11 in 2007-08 (the lowest range) and indicates 7.53 in 2008-09 as the highest range barring 2000-01 which was 2.11. It implies gradual increase in gross profit to a limited extent. The post-disinvestment shows 2.84 in 2001-2002 as the lowest and 13.20 in 2005-06. The average of this ratio is 3.65 in the pre-disinvestment period, whereas in the post-disinvestment period the average of this ratio is 7.20. This shows that the gross profit ratio has improved in the Post-disinvestment period. However, this was not significant as per 't' value. While considering the whole period, the average of this ratio refers to 5.42. The high value of the two periods reveals more fluctuations in this ratio in the pre and post disinvestment period. The compound annual growth rate of this ratio of Steel industry for the two periods is referred to as 8.05 in pre-disinvestment period and 9.74 in the post-disinvestment periods.

In Minerals and Metals industry, the gross profit ratio is ranging from 0.10 in 2001-02 to 24.32 in 2007-08 barring - 0.41 and - 0.77 respectively for the pre-disinvestment period. For the post-disinvestment period the Gross Profit ratio ranged between 14.27. The average of this ratio before disinvestment is 6.63 and 21.20 for the post-disinvestment period which indicates that there is a significant improvement in the gross profit ratio of Minerals and Metals industry during post-disinvestment period which is found significant at 1 % level. The average of this ratio for the whole period is 14.30 and 09.35 respectively for pre and post disinvestment period. The average growth for pre and post disinvestment period in this industry was 6.7 and 3.9 respectively.

The range of gross profit ratio in Coal and Lignite industry is 1.71, the lowest being 9.10 and the highest for the pre-disinvestment period barring 2001-02 and 2007-08 which shows -4.88 and 5.66 respectively. The lowest and highest range of gross profit ratio is 7.40 in 2005-06 and 29.20 in 2007-08 for the post-disinvestment period. The average of this ratio is 3.80 and 15.93

in the pre and post disinvestment period respectively. The average of this ratio of Coal and Lignite is marked with significant improvement in the post-disinvestment period.

The scenario of power sector reflects that the gross profit ratio in the Power sector in the pre-disinvestment period is 2.27 as against 6.94 in 2001-02 and 5.00 in 2007-08 during post-disinvestment period. The average of this ratio before disinvestment was 6.57 against 5.79 in the post-disinvestment period. The mean difference between gross profit ratio in the pre--disinvestment and post-disinvestment was found to be significant at 5% level. For the whole period the average of this ratio computed was 1.90. The decrease in gross profit ratio may be due to the reason that the Power industry's operational efficiency was not satisfactory in the post-disinvestment period. The average growth for pre and post disinvestment period in this industry was 2.09 and 3.01 respectively.

In Petroleum industry, the gross profit ratio ranged between 9.20 and 14.60 in the pre-disinvestment period whereas it ranged between 8.91 in 2001-02 to 13.40 in 2007-08 in the post-disinvestment period. The average of this ratio of petroleum industry stood at 11.88 against 11.04 in the pre-disinvestment and post-disinvestment periods respectively. For the whole period the average of this ratio was 11.46. Both pre and post-disinvestment periods registered more consistency in this ratio. The compound annual growth rate in this ratio before disinvestment was 0.81 against 2.49 in the post disinvestment period.

The overall analysis of statistical values of gross profit ratio for these industries suggests that among all the selected industries under review, the difference in mean values between before and after disinvestment was the highest in Minerals and Metals followed by Coal and Lignite and then Steel. All the three remaining industries registered lesser improvement in this ratio in the post-disinvestment period. Thus it is clear from the above analysis that the industries viz. Steel, Minerals and Metals and Coal and Lignite's had a better management in post-disinvestment period than the other industries.

Similarly all ratios have been calculated and discussed for all industries studies which followed over all analysis in pre and post disinvestment scenario.

Steel Industry - After Disinvestment

Here the impact of some parameters of the company's position and performance on the profitability related to post disinvestment period (2001-02 to 2007-08) by computing Karl Pearson's correlation co-efficient between the profitability measure and the selected ratios indicating the company's position and performance has been studies. Results of steel industry shows that the correlation co-efficient between CR and ROI is 0.414. It unveils that there is a low degree of positive association between the two variables, profitability and CR. The correlation Co-efficient value is found to be insignificant at 5% level. The correlation Co-efficient between QR and ROI is 0.570. It means that there is a moderate degree of positive association between QR and ROI. The correlation co-efficient is found to be insignificant. There is no association between CITR and profitability which is known through the value of correlation co-efficient which is -0.001. The correlation co-efficient is also insignificant at 5% level. The co-efficient of correlation between T A TR and ROI worked out to 0.485 which establishes the fact that there is a moderate degree of positive association between profitability and T A TR. The coefficient of correlation is insignificant at 5% level. While analysing the association between CETR and ROI the table discloses the correlation co-efficient at 0.02002 which depicts there is a very low degree of positive association between CETR and profitability. The correlation co-efficient between FTTR and ROI shows -0.016*which uncloaks* the truth that there is very low negative association between FTTR and ROI.

From the above analysis, it can be inferred that out of six ratios used for correlating with ROI, five ratios viz. CR, QR, CITR, T A TR, CETR showed positive association while the remaining FTTR displayed absence of association in the pre-disinvestment period while the post disinvestment period's performance is as follows: All the six selected ratios except CITR and FTTR, registered positive association viz. CR, QR, TATR and CETR. There was negative association between FTTR and ROI. The association between CITR and ROI was absent.

Minerals and Metals Industry - Before Disinvestment

The correlation co-efficient between ROI and CR is 0.219 in Minerals and Metals industry. It reveals that there is a low degree of positive association between current ratio and profitability. The value of correlation co-efficient is found to be insignificant at 5% level. The next ratio under analysis is Quick Ratio which indicates there is a moderate degree of positive association

between ROI and QR whose value is 0.532 which is insignificant at 5% level. The correlation co-efficient between CITR and ROI is 0.625. It discloses that there is a moderate degree of positive association between profitability and CITR. It proves that the correlation co-efficient appears to be significant at 1% level. The co-efficient of correlation between CETR and, ROI is 0.166. It connotes there is a low degree of positive association between the two variables viz. profitability and CETR. The Co-efficient of correlation between FTTR and ROI depicts moderate degree of positive association of 0.514. It is also insignificant at 5% level.

Minerals and Metals Industry - After Disinvestment

In Minerals and Metals industry, the correlation co-efficient between ROI and CR is 0.678. This unfolds the fact that there is a moderate degree of positive association between CR and ROI. The correlation is found to be insignificant at 5% level. There is a low degree of positive association between QR and ROI as the correlation co-efficient shows 0.148, which is statistically insignificant at 5% level. The correlation co-efficient between CITR and ROI is -0.024 which unmasks the truth that there is very low degree of negative association between the two variables, profitability and CITR. The co-efficient correlation is found to be insignificant. The correlation coefficient between TATR and ROI is 0.756. It uncloaks the fact that there 4s moderate degree of positive association between TATR and ROI. The correlation co-efficient between FTTR and ROI is -0.120 which implies there is a low degree of negative association between profitability and FTTR. The correlation co-efficient is found to be insignificant at 5% level.

The overall analysis of Minerals and Metals industry indicates that none of the selected ratios had negative association with Return on Investment (ROI) in the pre-disinvestment period. In the post-liberalisation period positive association between ROI and selected ratios was recorded in CR, QR, T ATR and CETR. It was negative in CITR and FTTR.

Coal and Lignite Industry - Before Disinvestment

In Coal and Lignite industry, the correlation co-efficient between CR and ROI is 0.258. It unfolds the fact that there is a low degree of positive association between profitability and current ratio. The value of correlation co-efficient is established to be insignificant at 5% level. There is a low degree of positive association between QR and ROI which is shown in the table at 0.111. It exposes that the value of correlation Coefficient is found to be insignificant. The

next ratio under analysis is CITR. Here there is a low degree of negative association between profitability and CTTR whose value is -0.208. The value of correlation co-efficient appears to be insignificant at 5% level. Correlation co-efficient between TATR and ROI is 0.609. It unfolds that there is a moderate degree of positive association between the variables profitability and TATR. The value of correlation co-efficient is found to be insignificant at 5% level. A moderate degree of positive association is brought to light between CETR and ROI which bears the value 0.578. The correlation co-efficient is established to be insignificant. The correlation co-efficient between FTTR and ROI is 0.235. It unveils the truth that there is low degree of positive association between FTTR and ROI. The value of correlation co-efficient is found to be insignificant at 5% level.

Coal and Lignite Industry - After Disinvestment.

In Coal and Lignite industry, the correlation co-efficient, between CR and ROI is 0.0417. It exposes the truth that there exists very low degree of negative association between ROI and CR. The correlation co-efficient is found to be insignificant. There is a high degree of positive association between QR and ROI. The value of correlation co-efficient is 0.853 which is statistically significant at 1 % level. The correlation co-efficient at -0.290 between CITR and ROI indicates that there is a low degree of negative association. The correlation co-efficient is found to be insignificant. There is a low degree of negative association between TATR and ROI which is proved through the value of correlation co-efficient at -0.208. The co-efficient co-relation is found to be insignificant. The correlation co-efficient between CETR and ROI is 0.159 which shows that there is a low degree of positive association between CETR and ROI. The correlation co-efficient is found to be insignificant. There is a moderate degree of negative association between FITR and ROI which is known through the correlation co-efficient at -0.566. The correlation co-efficient is found to be insignificant.

From the above analysis it is known that positive association was there in CR, QR, TATR, CETR and FTTR while CITR recorded negative association with ROI in the pre-disinvestment period. In the post-disinvestment period, positive association was there in QR and CETR while the remaining ratios viz. CR, CITR, TATR and FTTR registered negative association with ROI.

Power Industry - Before Disinvestment

One of the important among energy producing industries, power shows that there is a moderate degree of positive association between ROI and CR as the correlation co-efficient shows 0.569 which is statistically insignificant at 5% level. The correlation co-efficient between QR and ROI is 0.607. This emphasizes that there is a moderate degree of positive association between QR and ROI which is found to be insignificant at 5% level. There is a low degree of positive association between CITR and FTTR of power industry which is shown in the table as 0.263 which is also found to be insignificant. In case of correlation co-efficient between TATR and ROI, which is laid out at 0.043, there is almost non-existence of association between profitability and T A TR. The value of co-efficient of correlation is found to be insignificant at 5% level. The value of correlation co-efficient between CETR and ROI is 0.568. This shows that there is a moderate degree of positive association between CETR and profitability.

Power Industry - After Disinvestment

In Power industry, the correlation ' co-efficient between CR and ROI is 0.265 which uncertain the truth that there is a low degree of positive association between CR and profitability. The correlation co-efficient is found to be insignificant. The co-efficient of correlation between QR and ROI is -0.097 which unfurls the truth that there is a negligible degree of association between the variables profitability and QR. The value of correlation co-efficient is found to be insignificant. The correlation co-efficient between CITR and ROI is 0.394. This shows there is a low degree of positive association between CITR and ROI. The value of correlation co-efficient is found to be insignificant. The Co-efficient of correlation of power industry between TATR and ROI is 0.568 which discloses that there is a moderate degree of positive association between TATR and profitability. The last ratio under discussion, establishes the association between FTTR and ROI at -0.594, which means that there is a moderate degree of negative association between profitability and FTTR.

The scenario of Power industry before disinvestment was as follows:

CR, QR, CITR and CETR recorded positive association with ROI whereas no association was' recorded in TATR and FTTR with ROI. In the post- disinvestment period positive association with ROI was recorded in CR, CITR, T A TR and CETR. It was negative and negligible association with ROI in FTTR and QR respectively.

Petroleum Industry - Before Disinvestment

In petroleum industry, the correlation co-efficient between current ratio and ROI is 0.846. It unmasks that there is a high degree of negative association between profitability and current ratio. The value of correlation co-efficient is found to be significant 5% level. Secondly, there is a high degree of negative association between QR and FTTR as the correlation co-efficient shows -0.853.

Petroleum Industry - After Disinvestment

In Petroleum industry, the correlation co-efficient between current ratio and ROI is 0.315 which explains that there is a low degree of negative association between CR and profitability. The correlation co-efficient is found to be insignificant. There is a moderate degree of negative association between QR and ROI which shows that there is a low degree of negative association between profitability and CTTR. The correlation co-efficient is found to be insignificant. The correlation co-efficient between TATR and ROI is 0.733 which displays the information that there is a high degree of positive association between TATR and ROI. The correlation co-efficient between FTTR and ROI is 0.280 which reveals the fact that there is a low degree of positive association between FTTR and Profitability. The correlation co-efficient is found to be insignificant at 5% level.

From the above analysis it is clear that during pre-disinvestment period, positive association with ROI was conspicuous in CTTR, TATR and CETR whereas it was negative in CR and QR. In case of CETR it showed negligible association with ROI. In the post-disinvestment period 3 ratios viz. T A TR, CETR and FTTR recorded positive association with ROI while the remaining CR, QR and CTTR recorded negative association with ROI. Chemicals and Petrochemical Industry - Before Disinvestment

Chemicals and Petrochemical Industry - After Disinvestment

In Chemicals and Petrochemical the association between CR and ROI is at the lowest positive as the correlation co-efficient is shown at 0.181 which is also statistically insignificant. The Correlation co-efficient between QR and ROI is 0.250 which throws some light that there is a low degree of positive association between profitability and QR. The Correlation co-efficient is found to be insignificant. The coefficient of correlation between CTTR and ROI is 0.228. It

leaks out the truth that there is a low degree of positive association between the two variables CTTR and ROI which is also statistically insignificant. There is a low degree of positive association between TATO and ROI as the correlation co-efficient shows 0.330 which is also statistically insignificant.

Conclusions

Following suggestions are offered to improve the impact of disinvestment of public sector enterprises. Mere disinvestment of PEs is not enough. Entire industries have to be restructured to ensure competitiveness. Even for natural monopolies, it will be necessary to introduce regulation and supervision to reproduce effective competition. Otherwise, privatised enterprises *may not* be able to reap substantial monopoly profits, leaving consumers, worse off. Hence, improvements in efficiency do not follow from disinvestment *per se,* but, from the benefits that increased competition in the market place.

An alternative is to allow foreign capital to bid when PEs are put up for sale. The foreign investors would be in a position to bring in additional technology or management skills. Foreign investment *may* partly ease the scarcity of foreign exchange. But, a possible area of concern could be the element of control exercised by foreign interests on important sectors of the economy.

To remove the loss of revenue and the survival of uneconomic socially necessary services, special provisions have to be incorporated in various laws.

Disinvestment should not merely mean indiscriminate disinvestment, but efficiency and competitiveness in industry. The debate of disinvestment is not question of government or private control. It is essentially a question of competitiveness. It is a formidable task requiring shared political leadership and vision.

Evidence suggests that efficiency gains that are needed for improving a country's fiscal condition will materialise only if disinvestment is accompanied by extensive industrial restructuring. This will be best served if the process is allowed to evolve in a phased manner over a period of time.

Keeping in view the above observations relating to the study, the following measures are suggested which would go a long way to improve the profitability of Indian Public Sector Enterprises.

It is essential to have objective performance appraisal criteria far every public sector undertaking. For this purpose, the best way will be to introduce performance audit and revise the performance indicators. Commercial performance must take care of all the objectives and goals. For this purpose, a suitable system of financial and non-financial objectives must he developed. Policymaking should be based on realistic assessment of cost. According to present policies, if size aft economy grows, as grows the expenditure on public sector without adequate return an investment. Hence, the need for review aft the role of public enterprises in this regard is needed.

In public sector there is invariably over run of cost and time. This over run makes the project partly sick at the inception itself. Economy, efficiency and effectiveness in public sector enterprises are need of the hour to improve overall performance of the Indian economy. The incidence of project failure in public enterprises has got to be curtailed.

For revamping the units, there is strong need to assign clear targets to ensure accountability of the management. Necessary budgetary support either equity are loan based should be provided. For each unit, physical and financial targets should be worked out, precisely spelling out how many financial resources are needed from the centre and from raising funds from the public and how much should be these from internal generation of funds. Public barrowings may be suggested for short term and medium term financial requirements of the public enterprises. Also efforts should be made to increase net income contribution of public sector corporations which is necessary to compete with private sector.

The overstaffing and overhead personnel cost is a major reason of disappointing profitability of Public Sector Enterprises. Employment cost should be controlled through improvement in efficiency and productivity of employees. Extra staff should be diverted to other works. All out efforts should be made to tune up the efficiency and ensure effectiveness in this regard. On the pattern of All India services, a new cadre in the name of public sector services should be organized in which professional managers should be selected. Members of this service should be posted at the top level management of these corporations in place a bureaucrats.

Audit has been playing an important part as an instrument of financial control in public sector undertakings. Reforms are also required in the existing pattern, system and method of audit. A change in the attitude of the audit control is also highly desirable. The auditors have to be trained especially for the purpose reviews of financial accounts and statements of these enterprises which have been established with different objectives and it must be seen that these aims are fulfilled to the best possible extent. More over, a system of efficiency audit is essential. The real need of the hour is efficiency, audit performance appraisal, management audit, achievement assessment in relation to public enterprises along with the built in system of reward cum punishment for managerial efficiency. It would be, of course a devisable for these charged with efficiency audit to be mere forward looking. There is a necessity of reorientation in the approach and efforts should be made to judge the management efficiency properly and far that there should be increased reliance upon the efficiency audit of these enterprises.

The formation of holding companies, to improve financial performance, ensure public enterprises - Government interface, devote greater functional autonomy to subsidiaries, formulate suitable operational policies and attempt greater flexibility in regard to pricing and investment are same measures suggested for efficient functioning of public enterprises. The financial information system, internal and external should be improved in order to strengthen decision making and the one hand and effective financial stability of the public enterprises on the other.

The Bureau of public enterprises should not only act as a clearinghouse of information and ideas relating to the public sector but also constitute a pool of experience which could be shared by various enterprises. It should help also the government in strengthening the working and performance of public sector enterprises.

The management information system should be systematical in order to assist decision making on the one hand and effective control over the public sector undertakings on the other.

The state government may give a cash grant to those undertakings which have accumulated losses and which are likely to improve their profits prospects in future. The central government assist for some sort of cash grants say consessional tax, less power tariff etc to revamp the already loss making units. Another way of helping out the losing concerns is to reconstruct their capital structure, including writing off the capital to the extent of over capitalisation.

Some of the public sector undertakings suffer from underutilisation of their capacities because of non-materialisation of expectations of demand. There should be a systematic and scientific market survey so as to assess the demand correctly before a project is conceived.

Many of the public sector undertakings have been characterized by delay in commissioning of their prospects mainly because of governmental delays in decision making. The Government should constitute a committee of secretaries of the concerned departments to expedite the setting up of projects in public sector, once they are planned and conceived by the government.

A control mechanism, based on initial evaluation of expectation, is possibly best suited for public enterprises. The evaluation of these enterprises should be based on exclusively on financial targets. The methods of exercising accountability and control in public enterprises, currently used, are characterized by a plethora of control agencies. Operating without any real basis for either locating accountability or control has no meaning. The sine-qua for such control that is a set of clearly specified targets and objectives to be handed over to particular unit is absent.

The public enterprises are having poor profitability owing to a variety of factors. One, major factor that has proved to be drag on the efficient functioning of the public enterprises is the multi point interference in its day to day decision making. The idea of Memorandum of Understanding (MoU) represents a genuine desire to give autonomy to the public enterprises management. At the same time, they have to be made accountable for better management and efficient operations of the enterprise. The government should be primarily concerned with overall strategic planning and policy rather than day to day functioning of the enterprises. Its responsibility is to ensure that the public money invested in these enterprises earns an appropriate rate of return and that the functioning of these enterprises is consistent with plan objectives including these related to employment, fair pricing, regional dispersal, of industries and, efficient use of scarce resources. Once the goals have been mutually agreed to, an enterprise should be held strictly accountable for its performance in relation the goal set and there should be an appropriate mechanism for evaluation of performance.

Spell out the mission of the enterprise, derive its broad objectives and obligations and delete objectives which will have to be evaluated with subjectivity.

It is recommended for PSUs to specify objectives which are amenable for performance evaluation and identify possible performance parameters for each of the specific objectives.

Checking the data availability on actual performance with regard to each of the possible performance parameter and specifying performance parameters and their quantifications is a must.

The findings and suggestions are not conclusive as in some cases the performance has improved and in other cases it has not. A close look at the analysis reveals that the factors were beyond disinvestment. Public perception would have played a major role in the change

Some of the limitations that the researcher could note are that a study of this kind naturally calls for divulging confidential information by companies which was very difficult to get. Therefore, the researcher relied only on secondary data sources which were available in public domain like prowess database and companies balance sheets. The personal views of experts in a formal manner could not be obtained though thesis covers them in many other forms.

Future researcher can be undertaken in the areas covering opinions of experts. An empirical study would also be a possibility. Many other ways of measuring performance of PSUs are available which too can be studied and the effect of PSUs on competition and their social aspect a also be studied.

DISINVESTMENTS IN SELECTED PUBLIC UNDERTAKINGS IN INDIA: PROBLEMS AND PROSPECTS

THESIS

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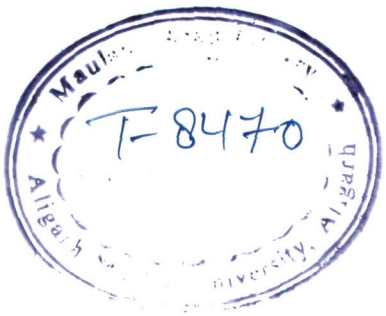

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TO WHOM IT MAY CONCERN

This is to certify that the thesis entitled **"Disinvestments in Selected Public Undertakings in India; Problems and Prospects"** is the original work of **Ms. Mariam Shujaat** under my supervision and suitable for the award of the degree of **Doctor of Philosophy in Economics.**

Mittal

(Prof. Ashok Mittal)

Forwarded

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Preface

Public Sector Undertakings (PSUs) have been playing a major role in our economy since 1947 but they did not perform as expected in a corporate world. The scholars were and still are divided on the performance measures of PSUs. Some maintain that the PSUs were not established to generate revenue or make surplus but to serve the society while the other argue that PSUs have no right to waste the hard earned money of tax payers. The debate continued and the government in the year 1991 woke up to liebralisation and privatisation. It started taking out some of its share and selling it to public, generally termed as disinvestment. It created lots of heat in the political and economic circle of the country. The debate went to the extent that government felt a need to establish separate ministry and even a disinvestment commission was formed.

Through this research, an attempt has been made to find out the performance of PSUs after the disinvestment. It may, to some extent settle the debate as the findings have proved empirically the performance level before and after disinvestment. Established measures of financial performance like ratios, return on assets, return on investment and similar financial indicators have been used to arrive at some conclusions.

First chapter provides evolution of Public Sectors in India followed by their contribution in the economy, history of PSUs. Thereafter, a brief description of methodology for disinvestment has been discussed. Chapter 2 provides background of disinvestment and the need for disinvestment, rationale for disinvestment and major Policy Guidelines have been discussed. These guidelines include bidding procedures, global scenario and World Bank Guidelines. The important features of Disinvestment Commission have also been discussed in this chapter.

Chapter 3 forms the survey of literature. It starts with organization of literature and then talks about economic and political issues, historical perspective. Then disinvestment during the period of various governments has been discussed. Importantly it includes Narasima Rao Period, United Front Government Period and BJP Government Period. The chapter also discusses post sale related issues of select PSUs and post closing adjustments. This has enabled the researcher to identify the research gaps. At the end of this chapter summary of literature review has been provided.

Chapter 4 forms the Research Methodology. It includes introduction to research methodology, statement of problems and objectives of study, sampling procedure and justification of the sample, hypotheses and testing procedure, methodology of data collection, analysis and presentation.

Chapter 5 analyses problems and prospects of disinvestment, major issues, employees related issues and legal issues. In chapter 6, critical analysis of prospects of disinvestment has been discussed. Economic analysis of select PSUs, critical analysis of select PSUs and major problems resulting from disinvestment have been discussed. Thereafter hypotheses have been tested.

Finally in chapter 7, conclusion and suggestions have been given.

The findings are not conclusive as in some cases the performance has improved and in other cases it has not. A close look at the analysis reveals that the factors were beyond disinvestment. Public perception would have played a major role in the change.

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Thanks are also duet to my family members, my parents and my husband who have encouraged me to complete the work despite being engaged in family life.

Mariam Shujaat

(Mariam Shujaat)

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List of abbreviations and their expanded form

Serial	Abbreviation	Expanded Form
1	BALCO	Bharat Aluminum Company
2	BCC	Bharat Cooking Coal
3	BHEL	Bharat Heavy Electricals Ltd.
4	BHEL	Bharat Heavy Electrical Limited
5	BJP	Bahritya Janta Party
6	CAGR	Compound Annual Growth Rate
7	CCD	Cabinet Committee on Disinvestment
8	CCEA.	Cabinet Committee on Economic Affairs
9	CETR	Capital Employed Turnover Ratio
10	CFPBR	Cash Flow Ploughed Back Ratio
11	CGD	Core Group of Secretaries on Disinvestment
12	CGD	Core Group of Secretaries on Disinvestment
13	CII	Confederation of Indian Industries
14	CL	Current Liability
15	CMC	Computer Maintenance Corporation
16	CMP	Common Minimum Programme
17	CONCOR	Container Corporation of India
18	CPI-M	Communist Party of India Marxist
19	CPSE	Central Public Sector Enterprises
20	CPUS	Central Public Sector Undertakings
21	CR	Current Ratio
22	CTTR	Current Assets to Total Assets Ratio
23	DCF	Discounted Cash flow
24	DCF	Discounted Cash Flow
25	DEA	Department of Economic Affairs
26	DoD	The Department of Disinvestment
27	DPE	Department of Public Enterprises
28	EBIT/IC	Earnings Before Interest and Tax to Interest Charges
29	EBIT/TA	Earnings Before Interest and Tax to Total Assets
30	EBITDA	Earning Before Interest Depreciation and Taxes

Serial	Abbreviation	Expanded Form
31	EC	(The) Evaluation Committee
32	EGoM	Empowered Group of Ministers
33	EIL	Engineering Projects India Limited
34	ET&TDC	Electronics Trade and Technology Development Corporation Ltd.
35	EV	Economic Value Addition
36	FCI	Fertilizer Corporation of India
37	FDI	Foreign Direct Investment
38	FEMA	Foreign Exchange Maintenance Act
39	FERA	Foreign Exchange Regulation Act
40	FICCI	The Federation of Indian Chambers of Commerce and Industry
41	FII	Federation of Indian Industries
42	FTTR	Fixed Assets to Total Assets Ratio
43	GAIL	Gas Authority of India Limited
44	GIC	General Insurance Corporation
45	GSR	Gross Surplus Ratio
46	HCIL	Hotel Corporation of India
47	HIL	Hindustan Insecticides Limited
48	HMT	Hindustan Machine Tools
49	HOCL	Hindustan Organic Chemicals Limited
50	HPCL	Hindustan Petroleum Corporation Limited
51	HPF	Hindustan Photofilms
52	HPL	EPIL, Hindustan Prefab Limited
53	HVOCL	Hindustan Vegetable Oils Corporation Ltd.
54	HZL	Hindustan Zinc Ltd.
55	HZL	Hindustan Zinc Limited
56	ICICI	Industrial Credit and Investment Corporation of India
57	IDBI	Industrial Development bank of India
58	IMF	International Monetary Fund
59	IMG	Inter- Ministerial Group

Serial	Abbreviation	Expanded Form
60	IOC	Indian Oil Corporation
61	IPCL	Indian Petrochemicals Limited
62	ITDC	India Tourism Development Corporation
63	ITI	Indian Telephone Industries
64	JCL	Jute Corporation of India Limited
65	JDU	Janta Dal United
66	LIC	Life Insurance Corporation of India
67	MECL	Mineral Exploration Corporation Ltd.
68	MECON	Metallurgical and Engineering Consultants India Ltd.
69	MHE	Ministry of Heavy Industries
70	MMTC	Minerals and Metals Development Corporation of India
71	MODI	Ministry of Disinvestment
72	MSTC	The Metal Scrap Corporation Limited
73	MUL	Maruti Udhyog Limited
74	NHPC	National Hydro-electric Power Corporation Ltd.
75	NL	Neyveli Lignite
76	NMDC	National Mineral Development Corporation
77	NPBIT/CE	Net Profit Before Interest and Tax to Capital Employed
78	NTPC	National Thermal Power Corporation
79	NTPC	National Thermal Power Corporation
80	OCF/GTA	Operating Cash Flow to Gross Total Assets
81	OCF/SHE	Operating Cash Flow to Shareholders' Equity
82	ONGC	Oil and Natural Gas Corporation
83	P&T	Post & Telegraph
84	P/BV	Price to Book Value
85	P/E	Price Earning Ratio
86	PAT	Profit After Tax
87	PAT/SHE	Profit After Tax to Shareholders' Equity
88	PBIT	Profit Before Interest and Taxes

Serial	Abbreviation	Expanded Form
88	PAT/TTA	Profit After Tax to Total Tangible assets
89	PECL	Project and Equipment Corporation Limited
90	PHDCCI	Progress Harmony and Development Chamber of Commerce and Industry
91	PPCCL	Pyrites Phosphates and Chemicals Ltd.
92	PPL	Pradeep Phospates Ltd
93	PSEs	Public Sector Enterprises
94	PSUs	Public Sector Undertakings
95	QR	Quick Ratio
96	RBI	Reserve Bank of India
97	RCF	Rashtriya Chemicals and Fertilizers Limited
98	RICL	Rehabilitation Industries Corporation Ltd.
99	RINL	Rashtriya Ispat Nigam Limited
100	ROI	Return on Investment
101	ROIR	Return on Investment Ratio
102	RTA	Return on Total Assets
103	SAIL	Steel Authority of India Limited
104	SBI	State Bank of India
105	SIIL	Sponge Iron India Ltd.
106	SOE	State Owned Enterprises
107	TATR	Total Assets Turnover Ratio
108	TOI	Times of India
109	UF	United Front
110	UPA	United Progressive Alliance
111	UTI	Unit Trust of India
112	VAT	Value Added Tax
113	VRS	Voluntarily Retirement Scheme
114	VSNL	Videsh Sanchar Nigam Limited
115	WTO	World Trade Organisation

Chapter - 1

Introduction

Chapter - 1

Introduction

In this chapter an attempt has been made to provide detailed background related to the genesis of Public Sector Undertakings in India, right from the evolution till the need for reaching a stage where the government of India felt the need to disinvest its holdings from some public sectors. The rationale, historical background, contribution of public sectors and genesis of disinvestment has been outlined here.

1.1 Evolution of Public Sector in India

Prior to 1947 i.e. the independence of our country, there were almost no "Public Sectors" in our economy. The only instances which one can find some mention were the Indian Railways, The Post & Telegraph, The Port Trust, The Ordnance and the Aircraft Factories and a few more Government controlled undertakings. After independence, India adopted the road of planned economic development through Five year plans. In this India opted for dominance of the Public Sector firmly believing that political independence without economic self-reliance would not enable the Government to fulfill the aspirations of the countrymen. The passage of Industrial Policy Resolution of 1956 and adoption of socialist pattern of society as the national economic goal of the country built the foundation of the dominant public sector as we see it today. It was believed that a dominant public sector would reduce the inequality in the distribution of income and wealth and advance the general prosperity of the nation.

The second Five Year Plan document clearly stated that "all industries of basic and strategic importance, or in the nature 'of public utility services should be in the public sector. Other industries, which are essential and require investment on a large scale, which only the State, in, the present circumstances, could provide have also to be in the public sector". It is further emphasized that, "the public sector has to expand rapidly. It has not only to initiate development which the private sector is either unwilling or unable to undertake, it has to play the dominant role in shaping the entire pattern of investment in the economy". The investment in public sector enterprises has grown from Rs. 29 Crore in 5

PSU on 01.04.1951 to Rs.2,52,554 Crores in 240 P5U on 31.03.2000 and to the tune of Rs. 5,55,740 crores in 2009.

1.2 Economic Contribution of PSUs from 1990 to 1998

If on e examines the achievements of the PSUs by the yardstick of objectives they were expected to achieve, one would observe that many of these objectives have, at best, met with limited success. The infrastructure for economic development is still inadequate. The return on investments in PSUs, at least for the last two decades, has been quite low and the PSUs have not been able to generate resources for development. The PSU survey shows that between 1986-87 and 1997-98, the Central Government owned PSUs, as a whole, never earned post-tax profits that exceeded 5 per cent of total sales or 6 per cent of capital employed. Thus, the return earned by the public sector was significantly lower than the rate of return for a time deposit of one year in commercial banks. Also, the PSUs' highest return on capital employed (6 per cent in 1995-96 and 1997-98) is at least 3 per cent points below the interest paid by the Government on its borrowings. Thus, adjusted for the effective interest rate, they have actually been giving negative return on capital. If the profits of the PSUs working in the monopoly environment are excluded, the picture becomes even worse.

For the period 1988-89 to 1997-98 the unit gross profits and post-tax profits of PSUs in the manufacturing sector were significantly lower than the private sector companies, when measured as a proportion of sales revenue net of indirect taxes but excluding the profits of PSUs in the monopoly areas (petroleum, power, coal and lignite), the post-tax profits turn to losses for the manufacturing PSUs for 9 out of the 10 years. Table 1.1 demonstrates the above points.

A close look of the table 1.1 proves that PSUs have always performed very poorly in terms of profit. One may argue that this was not the purpose for which these were set up but erosion of capital cannot be justified at any cost. Money comes from tax payers and how can it be allowed to be wasted.

Table 1.1

PSUs Profitability compared to the Private Sector as on 31st March

[Profit after tax (PAT)/net sales percent)]

As on 31 March	92-93	94-95	95-96	97-98	99-00	02-04	04-06	07-08
All Non-service PSUs	2.40	2.00	2.20	3.00	4.40	4.90	4.40	5.28
PSUs	-0.80	0.10	-0.10	-1.20	1.60	3.40	2.70	3.08
Pure manufacturing PSUs	-4.50	-5.30	-5.40	-6.90	-2.30	-2.40	-4.30	-3.90
Manufacturing Private Sector	5.70	4.90	4.90	6.60	9.10	9.00	7.00	6.20

Source: NCAER Study Report

Table 1.2 shows a comparison between the PSUs and the private sector companies from the point of view of the cost structure. Here also, PSUs have performed quite poorly as compared to private sector with regard to various cost parameters.

Table 1.2

Comparison of Cost Structure *(As Percentage of Sales)*

Parameters / As on 31 March	**92-93**	**94-95**	**95-96**	**97-98**	**99-00**	**02-04**	**04-06**	**07-08**
Raw materials / Net sales								
PSEs.	39.5	39.6	39.8	36.3	35.0	35.9	35.9	40.6
Private sector mfg.	44.4	44.1	41.4	42.5	42.9	42.3	42.3	40.4
Power and fuel / Net sales								
PSEs	10.3	10.9	12.7	13.5	12.9	13.3	14.9	19.5
Private Sector mfg	6.8	7.0	6.9	6.6	6.2	6.5	6.6	5.0
Wages/Net sales								
PSEs	18.6	17.3	18.1	17.7	17.6	19.2	19.1	23.3
Private Sector mfg	8.9	8.8	8.6	8.1	7.9	7.9	7.9	6.5
Interest / Net sales								
PSUs	8.8	9.9	11.3	11.5	9.0	9.1	9.8	11.7
Private Sector mfg	6.0	6.7	6.0	5.2	5.2	5.8	5.9	4.7
A. Raw Material differential	-4.9	-4.5	-1.6	-6.2	-8.7	-7.9	-6.4	0.2
B. Wages + Interest + Power differential	16.0	15.6	20.6	22.8	20.2	21.4	23.1	38.5
C. Total differential (A+B)	11.1	11.1	19.0	16.6	11.5	13.5	16.7	38.7

Source: NCAER Study Report.

The above Table shows that despite huge investment in the public sector the Government was required to provide more funds every year. The public sector equity base of about Rs. 40,000 crores (up to March 1990) yielded Rs. 17,938 crores for the Government as dividend in nine years. However. the Government had to invest a further sum of Rs. 61.211 crore during this period in the form of equity (Rs. 24,829 crore), plan loans (Rs. 26,185 crore) and non-plan loans (Rs. 10,197 crores), besides providing for the Voluntary Retirement Scheme. The average rate of return on the Government investment for these years works out between 1 per cent and 6.5 per cent.

Public Sector Undertakings (PSUs), which were given a special role in India's planned economy, grew both in terms of numbers and investment for over four decades from the early 1950s. At the commencement of the First Five Year Plan there were five PSUs with a total investment of Rs. 29 crores. At the end of the Seventh Plan in1990; there were 244 PSUs and the investment in them had gone up to Rs. 99,329 crores. Although disinvestments had started from the early 1990s, at the end of the Eighth Plan in 1997, investment had soared to Rs.213,610 crores. At the end of the fiscal year 2000-01, PSUs had a total investment of Rs.274,114 crores. The PSUs made a significant contribution to industrial production, 100 percent in lignite, over 80 per cent in coal, crude oil and zinc, almost 50 percent in aluminum and over 30 per cent in finished steel.

In terms of profitability, the PSUs showed diverse patterns. In 2000-01, 122 enterprises made a profit with the top 10 among them - giants such as the Oil and Natural Gas Corporation (ONGC), the National Thermal Power Corporation (NTPC), the Indian Oil Corporation (IOC) and the Videsh Sanchar Nigam Limited (VSNL) – accounting for close to 70 per cent of the total net profit of Rs.19, 604 crores. Sector-wise, petroleum, power and communications contributed to 60 per cent of the profits. During that year, there were 111 loss-making enterprises with a total loss of Rs.12,839 crores.

The major contributors to the losses were Hindustan Fertilizer, the Fertilizer Corporation of India (FCI), Bharat Cooking Coal, and some other enterprises dealing with coal. The return on investment of all PSUs taken together remained low - post-tax profitability being only about 5 per cent on capital employed. According to reports "The public sector in India,

which was perceived to be the vehicle of speedy economic development, has run into rough waters. It not only failed to produce surpluses which it was expected to generate for future growth, but the return on investment remained poor. "The question that is examined is whether disinvestment and privatisation can lead to better results.

At the theoretical level the poor performance of PSUs can be attributed to three factors they are not governed by profit maximising considerations; there is no direct equivalent of bankruptcy constraint; and since shares are not traded in the market, the discipline that the market imposes is absent. The general presumption is that these three factors adversely affect the enterprises. However, this is not a matter that can be or should be settled on theoretical arguments.

1.3 Brief History of Public Ownership

It would be worthwhile to shed some light on the history of ownership of PSUs. Main reasons for the State ownership of industries could be stated as under:

A) The development of public enterprises was seen as an appropriate policy response to bring about improvements in the economy, both in the developed as well as the developing countries. There appeared to be an economic consensus around the world accepting public enterprises as an inevitable part of the economy, specially to manage natural monopolies and also the core industry. While the public sector contributed significantly to the development efforts, the low rates of return on such investments and the inability of governments to finance the growing demands of such industries; changed the consensus in favor of economic liberalisation and privatization from the 1970's, in almost all countries.

B) Such industries could not have been developed by private sectors during 1940's or 1950's as there was not enough money in the money market and entrepreneurship was limited. So Government used high rates of taxation and deficit inflationary financing to develop public industries. Rescue Missions / Nationalisation - Some times Government had to step in to rescue certain enterprises, whose closure could result in significant loss of jobs and also because of several other economic and social reasons.

C) Another rationale for State ownership was the belief that State investment in and the control of the strategic sectors of the economy was necessary for the economic development of those sectors and the security of the country.

D) A few Public Sector Enterprises were established to balance or replace weak private sectors, to develop the industrially backward areas, to generate employment and to make goods available at lower cost.

We all know that the public enterprises have served as the backbone of the Indian economy in providing infrastructure facilities, supporting the cause of constitution and trying for a meaningful solution to balance economic and regional growth. Hence, any attempt to structurally adjust them must be the product of substantial thought followed up by a strong action plan. These were set up both to realize the economic and ideological necessity. To some extent they helped in realizing the planned economic growth that had to be undertaken at independence and thereafter. Overburdened with social obligations, PSEs crumbled financially in many areas of its activities.

The government had to give a second thought to the relevance of the PSEs in view of the gigantic investment in them. Here it may be noted that Mrs. Thatcher, the ex-Prime Minister of the U.K., with an ideological zeal in her party's election manifesto first brought the wave of privatization in 1979. The term privatization has not been well defined as yet. Mukhopadhaya (1988) observed that since the privatization has been recently coined there is not single definition as yet universally accepted by one and all. Interpreted in a narrow sense, the term privatization mainly means broadly a change of ownership from state to the private sector.

In such short period of a decade or less there was not enough time for the divested enterprises to make necessary adjustments, these empirical studies faced two limitations. The first was that in many instances the disinvestments were partial, with the government retaining management and control. Secondly, for reasons not related to disinvestments as such, there was an industrial recession in the second half of the 1990s and the early part of the present century, which adversely affected many enterprises, making it difficult to trace the impact of disinvestment.

Looking at the assessment, out of 38 disinvested enterprises, six recorded losses; they include Hindustan Photofilms, Hindustan Machine Tools (HMT), Indian Telephone Industries (ITI) and the Steel Authority of India Limited (SAIL). On the other hand, ONGC, IOC, the Gas Authority of India Limited (GAIL), VSNL, Neyveli Lignite, Bharat Heavy Electricals Limited (BHEL) and several others increased their profitability. The explanation that could be offered was that the fall in profitability was in the case of enterprises operating in a competitive environment while improvement in profitability was in the case of enterprises operating in a monopoly environment. Employment levels dropped following disinvestment, but because voluntary retirement schemes were in operation, it was difficult to attribute the fall to disinvestment as such.

The Government sold minority shareholdings in Central Government PSUs (CPUS) in earlier years of disinvestment. It generated an income of Rs.18000 crores till the year 1999. It completed strategic sales in four central PSUs in 2000-2001 and attempted to sell Shares of PSUs in open market which had not been successful due to lack of depth of Indian share market. Even when PSE shares were sold in Indian market most of it had to be bought by Indian Financial Institutions. This merely transferred public sector risk from one hand to another. UTI bought about Rs.6400 crores worth of PSE shares, which resulted in a' net loss of about Rs.5050 crores to the UTI. As recent as in 2009, the government of India (TOI, 9th Nov) once again reiterated to offload 10% stake from all public sector undertakings to which there have been positive reactions (TOI 11th Nov 2009)

1.4 Disinvestment Procedures

From 1991-92, when it started and till 1996-97, disinvestment was handled by the Department of Public Enterprises (Ministry of Heavy Industries) and subsequently, from 1st April, 1997 till 9th December, 1999, by the Department of Economic Affairs (Ministry of Finance). The Department of Disinvestment (DoD) was set up as a separate department on 10th December, 1999 and was subsequently renamed as Ministry of Disinvestment (MODI) w.e.f. from 6th September, 2001. From 27th May, 2004, the Department of Disinvestment is one of the Departments under the Ministry of Finance.

The procedures followed for disinvestment have evolved over a period of time. These were based on decision- making through inter- ministerial consultations and involvement of

professionals and experts, in view of the technical and complex nature of transactions and the need for transparency and fair play. The decision making process, the bidding procedure and the methods used for valuation of equity of CPSE sold are described below for the different modes of sales.

Decision making process:

The decision making process consisted of the following steps:

a) Identification of the CPSE whose shares were to be sold, the percentage of shares to be sold and the mode of sale.
b) Appointment of various advisers who would assist in the process of sale.
c) Selection of the bidders.
d) Determination of the reserve price; and
e) Approval of the price and other terms at which the shares were to be sold.

The details have been provided as under.

Generally, though not universally, the starting point till May, 2004 was study of the target CPSE by the Disinvestment Commission. In June, 1997, the Government decided that the recommendations of the Disinvestment Commission would be processed by the Department of Economic Affairs (Ministry of Finance) through a Core Group of Secretaries on Disinvestment (CGD), chaired by the Cabinet Secretary, for obtaining the decision of the Cabinet thereon. At that time, it was also decided that for disinvestment transactions exceeding Rs.500 crore, CGD would directly supervise the implementation of the Cabinet decision through an inter- ministerial operational group. This group consisted of Joint Secretaries from Ministry of Finance, Department of Public Enterprises, the administrative ministry concerned and the CMD of the CPSE concerned. In all the cases, where CGD was to directly supervise the disinvestment, CGD would recommend the timing,' pricing and extent of disinvestment etc., based upon the advice of the inter-ministerial operational group, to the Finance Minister, Industry Minister and the Minister of the administrative ministry for approval. For disinvestment transactions below Rs.500 crore, the administrative ministry concerned would be responsible for implementing Cabinet decisions, though they were to be monitored by CGD. The administrative ministries concerned would be provided appropriate technical assistance by the Department of Public Enterprises and Ministry of Finance.

This system was further modified in 1999 when the Department of Disinvestment (converted into Ministry of Disinvestment on 6th September, 2001) was established and issues, such as, which company was to be sold, the percentage of shares and the mode of sale were decided, on a case-by-case basis, by the Cabinet or one of its committees duly authorized in this regard. Generally, DOD/MODI would initiate a proposal for consideration of CGD which would further recommend the case to the Cabinet Committee on Disinvestment. Thus, there was a three-tier structure for decision- making and implementation of decisions:

- Cabinet Committee on Disinvestment (CCD) at the apex level;

- Core Group of Secretaries on Disinvestment (CGD) as a recommendatory body; and

- Inter- Ministerial Group (IMG) as a consultative group.

CCD was chaired by the Prime Minister. The functions of CCD, constituted in January, 2000 were as follows:

a) To consider the advice of the Core Group of Secretaries regarding policy issues relating to the disinvestment programme;

b) To decide the price band for the sale of Government's shares through international/domestic capital market route prior to the book building exercise, and to decide the final price of sale in all cases;

c) To decide the final pricing of the transaction and the strategic partner in case of strategic sales;

d) To decide on cases where there is disagreement between the recommendations of the Disinvestment Commission and the views of DOD/MODI; and

e) To approve the three-year rolling plan and the annual programme of disinvestment every year.

CGD was headed by the Cabinet Secretary. It functioned as the Empowered Group for vetting the recommendations of the Disinvestment -Commission, monitored the progress of implementation of CCD decisions, in disinvestment transactions exceeding Rs.500 crore

directly supervised the process of disinvestment and made recommendations to CCD on disinvestment policy matters.

A separate IMG was formed for each case of disinvestment. Generally, it was chaired by Secretary, DOD / MODI and comprised the *officers* of Ministry of Finance, Department of Public Enterprises, Department of Legal Affairs, Department of Company Affairs, the Administrative Ministry, the CMD and the Director (Finance) of the CPSE concerned. IMG was the forum where inter- ministerial consultation took place at the primary level. Recommendations of the IMG were considered by the CGD.

1.5 Summary

In this chapter, background in which public sectors were created was provided and the role these sectors have so far played in the economy of our country was discussed. What went wrong and why did the government and policy makers realise that the investment from these sectors need to be withdrawn gradually and part of control be given in the hands of private sector is a serious matter. Efforts have been made in the subsequent chapter to focus on these issues.

Chapter - 2

Disinvestment and Public Sector Undertakings in India

Chapter - 2

Disinvestment and Public Sector Undertakings in India

In chapter one, a brief background was provided about the PSUs and the need for disinvestment was briefly discussed. Here it would be pertinent to explain the rationale of disinvestment and briefly explain the background that led the entire process. It was generally observed in many countries including India, specially in the year 1970 that the performance of most of the public enterprises was far below the expectations. The weakness and defects of public enterprises started manifesting with grave danger to Government and economy in many countries, with no solution in sight. By the mid 1980 globally the political opinion was veering round to the view that the proportion of GNP due to Government economic activity should be reduced to the extent possible and business activities should be left to private sector as far as possible. During the 1980s, collapse of the socialist economy of the Soviet Block, introduction of economic reforms by Russia, East European countries and China knocked the bottom out of protagonists of Government intervention in every commercial activity for the benefit of the masses.

2.1 Background and Need for Disinvestment:

The government, for almost four decades, was pursuing a path of development in which public sector was expected to be the engine of growth. But by mid-eighties their short comings and weaknesses' started manifesting in the form of low capacity utilisation, low efficiency, lack of motivation, over-manning, huge time and cost overrun, inability to innovate and take quick decision, large scale political and bureaucratic interference in decision making, etc. But instead of trying to remove these defects and to increase the rate of growth of national economy, gradually the concept of self-reliant growth was given a quiet burial. The Government started to deregulate the imports by reducing or withdrawing import duty in phases. This resulted in dwindling of precious foreign exchange reserve to abysmally low level. The foreign debt repayment crisis compelled Government of India to raise loan from IMF against physical deposit of RBI gold reserve, on conditions harmful to the interest of the country.

This paved the way for the reversal of policies towards PSUs. The Industrial policy of 1991 started the process of delicensing and except 18 industries, Industrial licensing was withdrawn. The market was opened up to domestic private capital and foreign capital was provided free entry up to 51 % equity in high technology areas. The aim of economic liberalisation was to enlarge competition and allowing new firms to enter the market. Thus the emphasis shifted from PSEs to liberalisation of economy and gradual disinvestment of PSEs. When the crises of foreign debt services was at its peak, a paradigm shift of Government's economic policy orientation originated in 1991 which was a turning point in this regards.

2.2 Rationale for Disinvestment:

Because of the current revenue expenditure on items such as interest payments, wages and salaries of Government employees and subsidiaries, the Government was left with hardly any surplus for capital expenditure on social and physical infrastructure. Whereas the Government should have been spending on basic education, primary health and family welfare, huge amounts of resources are blocked in several non-strategic sectors such as hotels, trading companies, consultancy companies, textile companies, chemical and pharmaceutical companies, consumer goods companies, etc. Not only this - the continued existence of the PSEs was forcing the Government to commit further resources for the sustenance of many non-viable Public Sector Enterprises. The Government continued to expose the taxpayers' money to risk, which it could have readily avoided. To top it all, there was a huge amount of debt overhang, which needed to be serviced and reduced before money was available for investment in infrastructure. This made disinvestment of the Government stake in the PSEs absolutely imperative.

Because of burgeoning revenue deficit in Central budget year after year on account of current revenue expenditure on items such as interest payments, wages and salaries of Government employees and subsidies, the Government was left with hardly any surplus for capital expenditure on social and physical infrastructure. Huge amount of public resources were blocked in several non-strategic PSEs giving meager return Government is forced to commit further resources for sustenance of many non viable PSEs in absence of

exit route. Above all it had to service huge amount of outstanding debt before any money was available for investment in infrastructure. All these Government economic woes led to an obviously straight forward option of divestment of Government stake in PSEs. The issues regarding disinvestment which were still being debated in some form or the other and which will remain relevant in the coming days are as under

1. In which areas the disinvestment should not be there.
2. Whether defense production and services should be disinvested and to what extent it is desirable in view of national security.
3. To what extent the method of divestment can be made open and transparent.
4. Out of the various methods of divestment which path will lead to fulfillment of declared objectives.
5. Should the foreign private investors be allowed to acquire controlling interest in PSEs.
6. How the social security net be instituted to train and re-employ active and able employees retiring under VRS.

The cornerstone of the case for privatisation is the concept that private ownership leads to better use of resources and their more efficient allocation. Through out the world, the preference for market economy received a boost after it was realised that the State could no longer meet the growing demands of the economy and the State shareholding inevitably had to come down. The 'State in business' argument thus lost out and also the presumption that direct and comprehensive control over the economic life of citizens from the Central government can deliver results better than those of a more liberal system that directly responds according to the market driven forces.

Another reason for adoption of privatisation policies around the globe has been the inability of the Governments to raise high taxes, pursue deficit / inflationary financing and the development of money markets and private entrepreneurship.

Further, technology and WTO commitments have made the world a global village and unless industries, including public industries do not quickly restructure, they would not be able to survive. Public enterprises because of the nature of their ownership, can restructure slowly and hence the logic of privatisation gets stronger. Besides, techniques are now

available to control public monopolies like Power and Telecom, where consumer interests can be better protected by regulation competition, and investment of public money to ensure protection of consumer interests is no longer a convincing argument.

The objectives of the disinvestment programme vary from improving efficiency of the Public Sector Enterprises to transformation of the society.

The primary objectives for disinvestment in PSUs can be summarised as under

- Releasing the large amount of public resources locked up in non-strategic PSEs, for redeployment in areas that are much higher on social priority, such as public health, family welfare, primary education and social and essential infrastructure
- Stemming further outflow of these scarce public resources for sustaining the unviable non-strategic PSEs.
- Reducing the public debt that is threatening to assume unmanageable proportions,
- Transferring the commercial risk, to which the tax-payers' money locked up in the public sector is exposed; to the private sector wherever the private sector is willing and able to step in - the money that is deployed in the PSEs is really the public money; and, is exposed to an entirely avoidable and needless risk, in most cases.
- Releasing other tangible and intangible resources, such as, large manpower currently locked up in managing the PSEs, and their time and energy, for redeployment in areas that are much higher on the social priority but are short of such resources.

The other benefits expected to be derived from disinvestment were:

- Disinvestment would expose the privatised companies to market discipline, thereby forcing them to become more efficient and survive or cease on their own financial and economic strength. They would be able to respond to the market forces much faster and cater to their business needs in a more professional manner. It would also facilitate in freeing the PSEs from the Government control and introduction of corporate governance in the privatised companies.

- Disinvestment would result in wider distribution of wealth through offering of shares of privatised companies to small investors and employees.
- Disinvestment would have a beneficial effect on the capital market ; the increase in floating stock would give the market more depth and liquidity, give investors easier exit options, help in establishing more accurate benchmarks for valuation and pricing, and facilitate raising of funds by the privatised companies for their projects or expansion, in future.
- Opening up the erstwhile public sectors to appropriate private investors would increase economic activity arid have an overall beneficial effect on the economy, employment and tax revenues in the medium to long term.
- In many areas such as the telecom sector, the end of public sector monopoly would bring relief to consumers by way of more choices, and cheaper and better quality of products and services as has already started happening.

2.3 Major Policy Guidelines

The shares of the Public Sector Enterprises (PSEs) listed on the stock exchanges were heavily under valued. This was primarily because of the indifferent performance of the PSEs as well as the market perception that the Government was not prepared to let go its control over the PSEs and introduce corporate governance therein. The price / earning (PE) ratios of most of the PSEs were in single digits, generally around 4 or 5 - very much below the comparable companies in the private sector in India and abroad. The table below shows the comparison between the recent PE ratios of some companies in the public and private sectors.

A very established and acceptable method of valuation of any stock is its PE ratio. Comparision of PE ratios of PSUs with that of private sector ion the same industry shows the complete picture. The PSUs have not come even closer to that of private one in any sector or industry.

Table 2.1

Price/Earning per share (P/E ratios) of Indian Public and Private Sectors in India

Public Sector			Private Sector		
PSE	**P/E Ratio**	**Price**	**Company**	**P/E Ratio**	**Price**
Aluminum Nalco	7.2	56.70	Hindalco	8.3	775.60
Banking SBI	6.9	224.75			
Bank of Baroda	3	58.65	HDFC Bank	30.7	250.90
Corporation Bank	4.6	110.90	ICICI Bank	20.7	155.05
UTI Bank	4.8	35.70	IDBI Bank	27.3	24.00
Financial IDBI	2.7	29.40	ICICI	7	94.65
Gas GAIL	4.4	56.25	Gujrat Gas	15.8	668.55
Heavy Engg. BHEL	7.5	164.95	ABB	24.3	316.95
Housing Finance GIC Housing Finance	3.9	9.35	HDFC	16.8	592.85
Info Tech CMC	59.4	362.35	Infosys	64	5,695.35
			Wipro	91.7	2368.65
Petro Chem IPCL	8.6	69	RIL	15.1	402.75
Petro-Marketing IBP	15.7	316.9	Castrol	24.2	262.85

Source: Business Standard - 27.2.2008

The adverse market perception about the PSEs, which is reflective of their indifferent performance and Government control, is also obvious from the following Table which shows the comparisons between the book values and the market prices of the listed PSEs. As the Table 2.2 shows, the market prices of most of these PSEs are either below or just about equal to their book value.

Table 2.2

Book Values *vs.* Market Prices of some listed PSEs as on 8.2.2008

S.No.	Name of PSE	BSE/NSE Closing Price	Book Value
1.	BEML	29.75	160.52
2.	BEL	80.35	65.60
3.	BHEL	172.30	147.03
4.	CL	187.75	232.98
5.	BRPL	11.50	30.92
6.	CPCL(MRL)	38.55	78.29
7.	CONCOR	180.00	93.52
8.	Dreg. Corp	91.00	122.61
9.	EIL	177.15	112.31
10.	GAIL	58.65	55.88
11.	HOCL	9.35	36.16
12.	HPCL	193.80	170.38
13.	HZL	22.85	24.72
14.	IOC	171.15	180.63
15.	IPCL	78.00	121.77
16.	ITI	29.50	30.07
17.	KRL (CRL)	55.50	185.50
18.	MTNL	191.35	113.02
19.	NLC	14.30	25.33
20.	ONGC	154.60	188.02
21.	RCF	9.15	24.04
22.	SCI	39.55	67.95
23.	SAIL	8.00	12.75
24.	VSNL	375.10	216.64

Source: Business Standard - 27.2.2008

2.3.1 Major Disinvestment Policies

In September, 1997, Government decided that merchant bankers / global advisers would be appointed through 13 global process of competitive selection. The Expressions of Interest submitted by the advisers/merchant bankers were first considered by IMG comprising representatives from the Administrative Ministry concerned, the Department of Public Enterprises, the Department of Economic Affairs and the Chief Executive of the CPSE concerned. The recommendations of IMG were considered by CGD and approved by the Minister in-Charge of the Administrative Ministry concerned, the Minister of Industry and the Finance Minister.

The criteria and marking system for selection of Adviser for strategic sale were laid down by the CGD in its meeting held on 1st April, 1999. In July, 1999, the Government modified the procedure to the extent that intermediary advisers like Legal Advisers, Accounting Advisers, Asset Valuers, Environmental Advisers etc. should in future be appointed by the CPSE concerned following its internal procedure which would also bear ththe related expenditure. On 23rd June, 2000, the Government further modified the procedure and decided that Global Advisers would be termed as Advisers and be appointed with the approval of Minister of State of the Department of Disinvestment instead of the Group of Ministers.

In February, 2001 the Ministry of Law advised that advisers including the intermediary advisers should be appointed by the Government and not by the CPSE concerned. Subsequently, the Government decided in July, 2001 that, appointment of intermediary advisers would be made by Department of Disinvestment, after making selection from the list provided by the General Advisers. The actual appointment of intermediary advisers was typically made on the recommendations of an Inter Ministerial Selection Committee and with the approval of the Minister in-charge of Department of Disinvestment. The criteria and the marking system were further revised with the approval of CGD in January, 2002.

2.3.2 Selection of Bidders

The procedure generally followed for selection of bidders was that IMG constituted for the specific disinvestment transaction determined the qualification requirements based on the recommendations of the Adviser. Thereafter, Expressions of Interest (Eol) were invited through public advertisements in leading business newspapers and also simultaneously placing the advertisement as well as the preliminary information Memorandum containing the requisite -details including qualification requirements, the format of submission of Eol, the last date of submission etc. on the websites of DoD, the administrative ministry and CPSE concerned. The IMG concerned decided, on the basis of the recommendations of the Advisers, on the eligibility of the bidders to participate further in the process.

Determination of Reserve Price

Valuation was carried out to determine the Reserve Price. The Evaluation Committee (EC), generally consisting of the Financial Adviser of the Ministry/Department administratively concerned with the CPSE, a representative each from the Administrative Ministry/Department concerned, the Department of Economic Affairs, the Department of Disinvestment, the Department of Public Enterprises, the Chief Executive and Director (Finance), wherever available, of the CPSE concerned, made recommendations regarding fixation of the Reserve Price. The recommendations of EC were then considered by the IMG which also included the Chief Executive and Director (Finance) and a representative each of the Administrative Ministry and the Department of Public Enterprises. The Adviser concerned submitted the valuation report and the asset valuation report to the EC and made presentations on the values arrived at by different methodologies and merits and demerits of the various methods. The Valuation Report of the Advisers contained details of assumptions and basis of their recommendations. The CGD considered and forwarded the recommendations of IMG to CCD, which approved the valuation. However, MFIL was an exception, where the bid submitted by Hindustan Lever Limited was evaluated and recommended to CCD, for acceptance directly by EC without fixing the reserve price.

Offer for Sale

During February-March, 2004, Government sold its entire residual equity in IBP and CMC and the residual equity of 28.945 per cent in the case of IPCL. Government also sold small portions of equity in DCI, GAIL and ONGC. To assist the Government in selling its equity, Book Running Lead Managers (BRLMs) were appointed; the BRLMs were selected through a competitive bidding procedure and appointed after obtaining the approval of the Minister- in-charge of the Department .on the basis of the recommendations of CGD and IMG. The proposals for fixation of floor price/price band and the *offer* price were first considered by a High-level Committee comprising Secretary, Ministry of Disinvestment, Secretary of the Administrative Ministry concerned, Joint Secretary, Department of Economic Affairs and Joint Secretary, Department of Disinvestment. The recommendations of the High-level Committee were submitted for approval to the Group of Ministers constituted for this purpose.

Subsequently in June, 2004, the following disinvestment related functions were allocated to the Cabinet Committee on Economic Affairs (CCEA).

a) to consider issues relating to disinvestment;

b) to decide price band for the sale of Government shares through Global Depository Receipt/domestic capital market route prior to the book building exercise, and to decide the final price of sale in all cases;

c) to decide the final pricing of the transaction and the strategic partner in case of the strategic safes;

d) to decide on cases where there is disagreement between the recommendations of the Disinvestment Commission and the views of the Department of Disinvestment.

During July, 2004, Government decided to piggyback with an offer for sale on the fresh issue of equity that was being undertaken by NTPC. At the time of seeking Government's approval, it was considered that the procedure to be followed by NTPC for determining and approving the floor price/price band and offer price and sale price would also be applicable to the Government shares and this activity would be performed simultaneously taking the entire offer as one. DOD would participate in all monitoring level meetings in the Ministry of Power. A separate IMG was not to be formed.

In September, 2004, Government constituted an Empowered Group of Ministers (EGoM) to decide all issues related to the price band for the sale of Government's shares through GDR/domestic capital market route prior to the book building exercise and to decide the final price of sale in all such cases. EGoM comprises the Minister of Finance, the Minister of the Administrative Ministry concerned and Deputy Chairman, Planning Commission. EGoM would be serviced by Department of Disinvestment.

Sale of Residual Equity by the Auction Method

The Government's residual equity of 18.28 per cent in MUL was sold in two trenches of 8 per cent and 10.27 per cent in January, 2006 and May, 2007 respectively. Another 0.01 per cent was sold to employees in March, 2006.

In the case of sale of 8 per cent Government equity in MUL to public sector financial institutions and public sector banks, an IMG finalized its recommendation on appointment

of Advisers after going through the presentations made by merchant bankers/investment bankers. The recommendations of IMG were later considered by CGD and approved by the Finance Minister. The same advisers were retained for the sale of Government's remaining stake of 10.27 per cent to public sector financial institutions, public sector banks and Indian mutual funds.

An Evaluation Committee under the Chairmanship of JS&FA, DoD with JS, DHI; JS, DoD; and JS (PSE), Department of Economic Affairs, as members, was constituted for recommending the floor price, final sale price and allocation of shares. The Committee's recommendations were submitted to EGoM for approval.

2.3.2 Bidding Procedure

Strategic Sale:

The bidding procedure for strategic sale was evolved keeping in view the principles of transparency, administrative simplicity and fair play. Bidding was done in a two-stage process. In the first stage, all those bidders meeting the eligibility criteria were shortlisted by an IMG and were invited to do the due diligence of the company. Simultaneously, the transaction documents were firmed up by the Advisers in consultation with the CPSE concerned, the shortlisted and interested parties and IMG. Once the Government approved the draft transaction documents, which defined the future rights and obligations of the Government and the strategic partner, the conditions for sale of shares etc., financial bids were invited from the shortlisted bidders who had completed due diligence. After determination of the Reserve Price, the financial bids were opened and the highest eligible bidder was recommended by EC/IMG to CGD. The recommendations of IMG together with the recommendations of CGD in regard to sale price and the buyer were placed before CCD for approval.

Offers for Sale

Since 2003, eight Offers for Sale were concluded. All of them utilized the Book Building route. Under this methodology, bids were invited within a pre-determined floor from the investors during a specific period. Each investor submitted bid specifying the number of shares bid for and the price. After the end of the bidding period, the bids were

consolidated and a cut off price was recommended by the Inter-Ministerial Committee, constituted separately for each transaction, for approval to the EGoM, which took the final decision regarding allocation of shares to investors and the cut-off price.

Auction Method:

In the initial phase (December, 1991 to 1995-96), disinvestment of shares of select CPSEs was through the auction method. The reserve price was first determined by the Core Group of Secretaries and then the bids were invited from pre-determined target group of investors. Shares were allotted to the bidders in order of the bid prices, first to the highest bidder and then to next and 50 on until the shares were exhausted or the reserve price reached, whichever was earlier.

For the sale of residual shareholding of Government in MUL undertaken in January, 2006 and May, 2007, the Government first fixed the reserve price and then the bids were invited from the target group of investors. The shares were sold through the auction method described above.

Valuation

As mentioned earlier, valuation was carried out to determine the Reserve Price. The objective of valuation was to determine the fair value of an asset, which in turn is based on the assessment of its intrinsic value accruing from the fundamentals of the asset on a stand-alone basis. A purchase and sale was concluded only when two parties, with varying views on the value of an asset, reach an agreement on the same price. Thus the sale price were different from the Reserve Price, the latter being a benchmark for evaluation of bids received through the bidding process.

2.3.3 Experience of Other Countries and WTO Issues

It has been universally recognised that the instrument of public ownership, widely used during post-colonial rule and post-war reconstruction period, is no longer the most desirable instrument for development. The signing of WTO has also led to severe global competitive pressure on national industries with the realisation that they will not survive unless they are competitive in international markets. Further, due to the Government's inability to raise taxes and reduce expenditure, the use of taxpayers' money in running

industries has come under serious criticism in most of the countries. These pressures have led to large-scale privatisations around the world.

Apart from Britain and France, there are, several other countries where privatisation has taken place. Worth mentioning are the privatisations in the erstwhile East Germany, China and Chile. While privatisation started in Germany as far back as in 1959, over 14500 companies were sold by Treuhandstalt (THA) post -1990, following reunification of Germany. Privatisation was carried out through public sale, sale by option, trade sale, management / employee buy-outs. etc. THA was able to successfully complete its assigned job.

China

In the case of China, market reforms started in 1998. The reforms included corporatisation and listing of large and medium size State Owned Enterprises (SOE) on the domestic and foreign stock exchange and permission to foreign investors to invest in various infrastructure and utility businesses, such as railways, toll roads. ports and power plants. In 1978, over 75 per cent of the industrial output was produced by the State sector which is reported to have fallen to 34 per cent by 1995. The collective sector is reported to have increased from 32 percent to 37 per cent individual sector (small capitalist businesses) from 1.8 per cent to 13 per cent and others (including all other capitalist enterprises -local and foreign) from 1.2 per cent to 16.6 per cent. Thus. the private sector grew at the expense of the State sector. At the 15th Party Congress held in September 1997, the Central leadership decided to engage in fundamental restructuring of some 300,000 SOEs within a 3-year framework by 2000, through mergers, acquisitions, corporatisation/privatisation and declaring bankruptcies, injection of fresh capital through the introduction of the joint stock system and systematic layoff of excess workers. According to the World Investment Report 1997, foreign direct inflows to China amounted to US $ 42.3 billion in 1996. The level of Foreign Direct Investment inflows in other years were also similar in comparison to annual inflows in India, roughly of the order of US $ 1.5 to $3 billion every year.

Chile

Chile is another example of notable privatizations, Deregulations, liberalisation and privatisation have been the major elements in the Chilean economic policy since 1973, reversing a long trend of the growth of public sector. Since 1973, it has undergone 4 major privatisations the transfer of expropriated enterprises during 1974-75; the extensive privatisation during 1975-79 of enterprises that were not expropriated but in which the State had ownership ; the privatisation, of bankrupt private corporations (including banks) from 1984 to 1986; and finally the privatisation of large public corporations (mainly public utilities) which started in 1986 and continued throughout 1988.

Italy

Among the specific cases of successful privatisation, the privatisation of ENI (Italy). is cited as one of the most successful privatisations. ENI was used by the Italian Government as a flagship company for privatisation. In the beginning there was a lot of opposition, but the success of the transaction ultimately changed the entire perception about privatisation in Italy. The Government stake was sold in four tranches of around 15 per cent each, between 1995-'1998'. The sale of each tranche resulted in the improved perception about the value of ENI shares. While the first tranche of 15 per cent shares fetched US $ 3.95 billion in December 1995, the fourth (last) tranche of 13 per cent shares (which resulted in ENI becoming a private company) fetched the Government US $ 7.3 billion, that is. more than double of the first offering. Post-privatisation, the value of Government shareholding increased dramatically to the extent that the Government's remaining stake in ENI (38.6 per cent) had about the same market value (US $ 22 billion) as the market value of 85 per cent shares after completion of the first offering in December 1995.

2.3.4 The World Bank's Privatisation Guidelines

The lessons learnt form the experience of the authors Sunita Kikeri, John Nellis and Mary Shirtey, officials of the World Bank, make the point that government's intent on privatizing face a challenge: the benefits of efficiency and innovation only materialise if disinvestment is carried out correctly. They have provided following checklist.

Checklist of privatisation guidelines

The following checklist provides some basic guidelines:

- The more market-friendly a country's policy framework - and appropriate policy is corrected with capacity to regulate - the less difficulty it will have in privatising on State Owned Enterprises (SOE), and the higher the likelihood that the sale will turn out positively.
- SOEs functioning in competitive markets, or in markets easily made competitive, are prime candidates for privatisation. Their sale is simple compared with that of public monopolies, and they require little or no regulation.
- An appropriate regulatory framework must be in place before monopolies are privatised. Failure to regulate properly can hurt consumers and reduce public support for privatisation.
- Countries can benefit from disinvestment management through management contracts, leases, contracting out or concessions.
- The primary objective of privatisation should be to increase efficiency not to maximise revenue (for example, by selling into protected markets) or even to distribute ownership widely at the expense of managerial efficiency.
- Rather than restrict the market by excluding foreign investors and favouring certain ethnic groups, governments should experiment with "golden shares" (devices that prevents complete takeover by non-government interests without retaining management control by government) and partial share offerings. These could help to win acceptance for foreign and other buyers.
- Avoid large new investments in privatisation candidates; the risks usually outweigh the rewards. Rather prepare for sale by carrying out legal. managerial and organisational changes.
- Experiences shows that labour does not, and need not, lose in privatization, if governments pay attention to easing the social cost of unemployment through

adequate severance pay, unemployment benefits, retraining and job search assistance.

- Ideally, let the market set the price and sell for cash. Realistically, through negotiated settlements and financing arrangements or debt equity swaps may be unavoidable.
- In all privatizations, in all countries, the transaction must be transparent.

2.3.5 Disinvestment Commission's Recommendations

The Disinvestment Commission was set up on 23.8.1996 for a period of 3 years with the following terms of reference;

- To draw a comprehensive overall long-term disinvestment programme within 5-10 years for the Public Sector Undertakings/Enterprises (PSU / Es) referred to it by the Core Group.
- To determine the extent of disinvestment (total/partial indicating percentage) in each of the PSU.
- To prioritise the PSUs referred to it by the Core Group in terms of the overall disinvestment programme.
- To recommend the preferred mode(s) of disinvestment (domestic capital markets/international capital markets/auction/private sale to identified investors/any other) for each of the identified PSUs. Also to suggest an appropriate mix of the various alternatives taking into account the market conditions.
- To recommend a mix between primary and secondary disinvestments taking into account Government's objective, the relevant PSU's funding requirement and the market conditions.
- To supervise the overall sale process and take decisions on instrument, pricing, timing, etc., as appropriate.
- To select the financial advisors for the specified PSUs to facilitate the disinvestment process.

- To ensure that appropriate measures are taken during the disinvestment process to protect the interests of the affected employees including encouraging employees' participation in the sale process.
- To monitor the progress of disinvestment process and take necessary measures and report periodically to the Government on such progress. To assist the Government to create public awareness of the Government's disinvestment policies and programmes with a view to developing a commitment by the people.
- To give wide publicity to the disinvestment proposals so as to ensure larger public participation in the shareholding of the enterprises.
- To advise the Government on possible capital restructuring of the enterprises by marginal investments, if required, so as to ensure enhanced realisation through disinvestment.

The Disinvestment Commission shall act as an advisory body and the Government will take a final decision on the companies to be disinvested and mode of disinvestment on the basis of advice given by the Disinvestment Commission. The PSUs would implement the decision of the Government under the overall supervision of the Disinvestment Commission.

The Commission while advising the Government on the above matters will also take into consideration the interests of stakeholders, workers consumers and other having a stake in the relevant public sector undertakings.

Modified terms of reference

The terms of reference of Disinvestment Commission were modified on 12.1.1998. The modified terms of reference were as follows:

- Disinvestment Commission shall be an advisory body and its role and function would be to advise the Government on disinvestment in those public sector units that are referred to it by the Government.
- The Commission shall also advise the Government on any other matter relating to disinvestment as may be specifically referred to it by the Government. and also

carry out any other activities relating to disinvestment as may be assigned to it by the Government.

- In making its recommendations, the Commission will also take into consideration the interests of workers, employees and others stakeholders in the public sector unit(s).
- The final decision on the recommendations of the Disinvestment Commission will vest with the Government.

If we look at the number of cases referred to the disinvestment commission we note that PSUs that were referred to the Commission, 47 were profit making. The Disinvestment Commission gave its report on 58 PSEs, out of which 38 were profit making. In these 58 PSEs, the following methods of sale were recommended. Please see table 2.3

Table 2.3

Methods of Sale and Number of Enterprises sold

S.No.	Method of Sale	No. of PSEs
1.	Strategic sale	29
2.	Trade sale	8
3.	Offer of share	5
4.	No disinvestment	1
5.	Disinvestment deferred	11
6.	Closure/Sale of assets	4
	Total	58

Source: Source: Business Standard - 27.2.2008

Disinvestment Commission's Recommendations on Valuation

The Disinvestment Commission, in its Report on Disinvestment: Strategy and Issues, submitted in December, 1996, while underlining the ,importance of the subject of valuation, discussed three basic approaches to valuation:

a) Discounted Cash flow (DCF)

b) Relative valuation.

c) Net asset value.

The Commission was of the further view that the use of a particular method of valuation would depend upon the health of the company being evaluated, the nature of the industry in which it operated and the company's intrinsic strengths. The depth of the capital markets would also have an impact on the valuation.

The Commission also discussed several factors, which impact valuation. Although valuation methods itself generate a range of valuations in each case, some discounts may need to be applied to arrive at the correct present value.

The Commission also sought to correct some erroneous perceptions about valuation. There is a general perception that since valuation models were quantitative, valuation is objective. The Commission felt that though valuation does make use of quantitative models, the assumptions made as inputs to the model leave plenty of room for subjective judgments. At the same time, there is no such thing as a precise estimate of a value. Even at the end of the most careful and detailed valuation of a company, there could be uncertainty about the final numbers, as they are shaped by assumptions about the future of the company's operations.

Another perception sought to be corrected by the Commission was the relationship attributed between valuation and market price. The benchmark for most valuations remains the market price (either the company's own price, if it is listed, or that of a comparable company). The Commission felt that the valuation done before listing takes into account anticipated factors, whereas market price reflects realised events that are influenced by unanticipated factors. Moreover, a specific valuation itself may not be valid over a period

of time as it is a function of the competitive position of the company, the nature of market in which it operates and Government policies. Therefore, it may be appropriate to update or revise valuations.

Valuation Methodologies followed in the case of Strategic Sale

The following four methodologies were used for valuation of CPSEs:

a) Discounted Cash Flow (DCF) Method.
b) Balance Sheet Method.
c) Transaction Multiple /Comparable Companies/Relative Valuation Method.
d) Asset Valuation Method.

The Reserve Price was fixed on the DCF method in the case of BALCO, CMC, HTL, VSNL, IBP, IPCL, HZL, ITDC and HCI Hotel units. In the case of MFIL, the reserve price was not fixed, whereas in the case of PPL, the reserve price was determined by giving weightage of two to DCF value and one to the Replacement Value based Asset Value.

A statement indicating the valuation of the CPSEs, which were sold through strategic sale, under different methods of valuation, the Reserve Price and Sale Price in each case. The statement indicated that the bid price realized by the Government was always more than the Reserve Price, except in the case of PPL. The statement on Reserve Price and the amount realised in respect of disinvestment of hotel properties also deferred significantly..

Valuation Methodologies followed in the case of Sale of Small Portions of Equity – Auction Method:

During 1991-96 shares were sold by the auction method. The basis of fixation of the Reserve Price is given here in under:

a) In the first year of disinvestment, i.e., 1991-92, Government sold shares in bundles belonging to Very Good, Good and Average CPSEs. The auctions were open only to financial institutions, mutual funds and public sector banks which were finally subjected to a reserve price computed on the basis of the then prevailing formula of the Controller of Capital Issues. The second phase of disinvestment was based on

reserve prices recommended by the Industrial Credit and Investment Corporation of India.

b) In the subsequent year (1992-93), the shares were sold individually in auctions which elicited more competition with the presence of firms, corporate bodies as well as individuals who had permission to buy, hold and sale shares in India. Reserve prices at the auctions were fixed with the help of professional advice from merchant bankers and only bids in excess of the reserve prices were accepted. Shares were allotted in the order of bid prices, first to the highest bidder, then to the next and so on until the shares were exhausted or the reserve price reached, whichever was earlier.

c) In 1993-94, the reserve price was the higher of the highest price realized for each CPSE's share at the last year's auction or average of the prices indicated by the merchant bankers (IDBI and ICICI) for that CPSE. Towards the end of 1993, the government offered shares to employees in eight CPSEs where disinvestment had already occurred, at a 15 per cent discount to the average price realized by the Government at the auctions held during 1992-93.

d) The formula for fixation of reserve price was revised in 1994-95 as the higher of (i) average price indicated by the merchant bankers engaged for that purpose; or (ii) average price realized at any preceding auction. Where there was more than one previous auction in which the share had been sold individually, the highest of the average price realized at any of the preceding auctions was considered.

e) During 1995-96, the reserve price was taken as the average of the price indications given by a panel of three institutions namely, IDBI, ICICI Securities and SBI Capital Markets.

f) In the year 2005-06, the Government sold 8 per cent of the paid equity capital of MUL through the auction method to public sector financial institutions and public sector banks. A floor price of Rs.620 per share was fixed for the share of the face value of Rs.5. The shares were allotted to the bidders in the order of the bid prices, first to the highest bidder and then to the next and so on until the shares were exhausted at a cut off price of Rs.660 per share. The weighted average price worked

out to Rs.678.24 per share in a bid range of Rs.660-725. Another 0.01 per cent was sold to employees at the cut-off price of Rs.660 per share. Each employee was offered 20 shares.

g) In May, 2007 the Government sold its residual 10.27 per cent paid up equity capital in MUL through the auction method to the public sector financial institutions, public sector banks and Indian mutual funds. A floor price of Rs.760 per share was fixed for the share of face value of Rs.5. The weighted average price of the shares sold worked out to Rs. 797.49 per share in a bid range of Rs. 775- 850.

Public Offerings:

a) The Government through the 'Offer for Sale' route, divested all or a portion of its equity in six listed companies viz. DCI, CMC, ONGC, GAIL, IBP and IPCL. While disinvesting in these six listed companies, the Government was required to fix a Floor Price/Price Band. The Floor Price/Price Band was fixed by the Group of Ministers on the recommendations of a High-level Inter-Ministerial Committee. While making its recommendations, the High level Committee was, by and large, guided by the market price and its trends. In some cases, multiples provided by BRLMs were also considered for assessing the reasonableness of the recommended Floor Price/Price Band. The Floor Price per share recommended in the cases of CMC, GAIL, IBP and IPCL was Rs.475, Rs.185, Rs.620 and Rs.170 respectively. In the cases of DCI and ONGC, the price bands of Rs.385 - 400 and Rs.680 - 750 per share respectively were fixed.

b) The IPO of MUL in 2003 consisted only of an Offer for Sale for 27.51 per cent of MUL's paid-up equity, out of Government's shareholding. Based on the recommendation of the BRLMs, the floor price of the issue for the face value of Rs.5 per share was fixed at Rs.115 per share.

c) The IPO of NTPC in 2004-05 consisted of an Offer for Sale for 5.25 per cent and Fresh Issue of 5.25 per cent of the post-issue paid up equity of NTPC. A price band of Rs.52 to Rs.62 per equity share was fixed after studying the ratios pertaining to PIE, P/BV, EV/Adjusted EBITDA, Dividend Yield, DCF, etc.

2.5 Summary

The major reasons for disinvestment decision have been explained in this chapter. A brief description of the procedure followed while allowing disinvestment and the use of proceeds so realised too has been provided. An experience from the other countries of the world has also been discussed. Some background has been provided on the problems and in line with that prospects have been discussed in the subsequent chapter.

Chapter - 3

Survey of Literature

Chapter - 3

Survey of Literature

In this chapter efforts have been made to study the research work of various scholars on the subject. As far as possible attempt has been made to study a wide range of literature from the refereed journals, books, news papers and periodicals and business magazines such as the Business Standards and Business Today. Political commentary from various sources including the library of the parliament and other sources have been scanned. The literature so reviewed has been summarised and research gaps have been identified and later on addressed in the methodology section in chapter four.

According to Basu, P.K. (2003) disinvestment became a hall mark of market-oriented reforms in many countries across the globe, especially in those countries where experimentation with socialism and public sector has not yielded it bountiful returns. The public sector enterprises in most of the countries have a substantial share is national saving; investment accounts, balance of payments accounts and government receipts and payment accounts. Thus there performance at a micro or firm level has a significant impact at macro or national level. As per Clark Gordan (1997) the public sector in many countries including India has become an epitome of low profitability, low rate of return, over-employment, unnecessary burden on exchequer and political manipulation. The multi dimensional objectives of public sector give enough room for criticism. Whatever justification is given for the existence of public enterprises, the state of economy and the public sector, colossal loss and resource crunch, call for improvement in there performances.

Privitisation is an idea, like communalize or socialism. It means the gradual shift of the government from owing and running industries to only regulating them. By another definition privatization means sale through public offer of a part or whole of the capital by government out of its total holding of shares, at a fair and reasonable price. The identical idea is to transfer the control of the govt. companies to the non-govt. management. But privatization of the public enterprise can be no panacea for the economy. According to Ramesh, J. R. (2007), the idea of revitalizing three enterprises on the basis of conventional

criteria such as returns on investment is pointless. At stake are national priorities – social, economic and even political – strategic.

There can be three alternatives before the Government in India on privatization the whole public sector or profit making units or / and loss making units. The first option remains outside the preview of consideration as it defeats the welfare objective of the government. The choice left is between profit making and loss incurring units. Jagdish, P. C. (1997), says that the profit making units call for privatization when the government wants to have more resources by selling away such units. In the cases the loss making units, it is because they became a burden on the budget and ultimately on the economy. Bakhshi, M. (2007), says that in a developing country like India the private sector does not have the capacity to buy the share of public enterprises on large scale. This sector has already taken many mega projects and hence may not be in a position to finance the take over of the public sector projects. It needs to be noted that many of these mega projects are also financed through public sector, financial institutions. Gupta, S.L. (1998), says that a frequent criticism of privatization is that it is merely a give away of public property at free in far below a fare valuation of assets one of the reasons for the low prices public sector companies fetch is the large risk that private investors have to take, besides price controls exercised by the government that can prevent a fair return on capital. Handa, R. (1996), says the opponents to privatization also raise fear about loss of revenue and strategic supplies, as also the survival of uneconomic socially necessary queries.

According to Gangadhar, V. (2007), in developing country like India privatization cannot serve as a remedy for all the ills of public enterprises because they are expected to serve as powerful instruments for achieving social and economic justice. Mere change of ownership from public to private alone does not guarantee efficiency or effectiveness in the production and delivery of public goods and services.

According to Jain, T.K. (2002), economic theory privatization without efficiency gain does not impose a country's facial stance. This is because when state-owned enterprise is sold at a fair market price the value of sales should non or the equal the net present value or future after tax earnings Bakhshi, M. (2003) says that when a profitable state owned enterprise is privatized, the state obtains sales proceeds but foreign future earnings, the opposite is true

when a loss-making state owned enterprises is privatized. In either case all that takes place is a trade-off between current and future net proceeds.

In its monthly commentary on Indian eco-condition published in September 2002, it has been observed that the claim of the economic reformer that once public investment especially in industry is withdrawn and industrial development is left to private enterprise, the resource constraint on the government for investment in social sectors would be removed. This is a false claim. It was also argued by them that disinvestment would benefit the mass of the people and make privatization and market drive growth of Indian industry expectable and popular. This has not actually happened. As per Jha S (1984) the disinvestment and privatization drive has certainly and often were allowed diversion of public funds to selected private business corporations. To extract high profits from meager investments and take over off public sector undertakings. The privatization of BSNL to the TATA house is the case in point.

Jenkins, R. (1999), observes that it has been further observed in the aforesaid commentary on the Indian economic conditions, that the original idea of disinvestment to raise revenues for the government for opening on alternative priority area such as education, health, roads and irrigation has also been shelved. After the winding up of the disinvestment commission, which tended to give some importance to enhancing the market value of PSU's before there privatization and collect larger revenue for the exchequer the disinvestment policy developed novel features and wider dimensions under the NDA government lead by Mr. A.B. Vajpayee. He event tofar in committing himself, in the domestic arena as well as the globally, to the privatization-the globalization policy. And his disinvestment policies did not win for NDA (National Democrat Alliance), popular acceptance. The awareness of the implication and consequences of the so called economic reform did show wide spread anger in India and these economic reforms because most contention issues for political and electoral contention. This contention did exercise dominant influence in the general election and led to the disastrous results for the NDA parties. The Minority Congress Government which initiated in 1991, the privatization-globalization process in India found itself vulnerable in the mid-term of its tenure. The then Prime Minister Mr. P.V. Narasimha Rao realizing the pulse of the common man halted the implementation of market friendly economic reforms for the time being and event week to

populist gestures in order to be able to improve the poor electoral prospects of his party. Like Mr. Vajpayee's party too was routed in the general election.

It was felt that the entire disinvestment programme and the manner in which it was being implemented at a feverish, break-neck hurry by then disinvestment minister Mr. Arun Shourie was not in the larger national interests and at provoke popular opposition, which was acquiring mass character. Since then the privatization of PSU had become more openly, ideologically inspired rather than based on the criteria of economic efficiency.

Three decades ago for not processing, Indian crude oil brought matters to head on for the contentions issue of the disinvestment of the PSU's. Mr. Georage Fernandes, the NDA convener brought the issue of review of the decision not only for the sale of two public sector refineries and their marketing networks, but the entire disinvestment programme as was being implemented by Mr. Arun Shourie. It was further realized that the sale of the govt. equity in PSU's did not work to yield substantial revenue for the government. The strategic sale of PSU's to private corporations at negotiated prices caused alarm as it was found that the nation assets were being given away at a throw away pull for the dubious considerations, ideological and economic. The privatization of the PSU's rightly came under serious question as a way to help private monopolies, Indian and foreign to flourish at the cost of labour and the consumer. Even the Congress Party which initiated the disinvestment process had developed strong reservation on the disinvestment in the case of profit making PSU's, some of the partners of them ruling NDA government had misgiving about the working the disinvestment ministry. There were also allegations of corruption in selective disinvestment deals with business interest, foreign and Indian and it was argued that the adverse implication of privatization on Indian economy and polity should be entirely examined.

Disinvestment scheme device from time to time to raise substantial revenues for the Govt. by selling the equity PSU's under the NDA government had obviously lost its charm for the self styled economic reformers in the government.

It appears most of the important economic general opposed the policy of the NDA government on disinvestment, whereas many journals simply pointed out the procedure of disinvestment.

Public enterprises have served as the backbone of the Indian economy in providing infrastructure facilities, supporting the cause of constitution and trying for a meaningful solution to balance economic and regional growth. Hence, any attempt to structurally adjust them must be the product of substantial thought followed up by a strong action plan.

3.1 Organisation of Survey of Literature:

Attempt has been made to categorize the articles written on specific themes and discuss them at one place. For example the authors who in general have discussed the importance of public sectors in the economy and have argued against disinvestment have been clubbed together. Similarly, those who support disinvestment have been quoted separately. Also, the research work has been placed in chronological order for the ease of following chain of events.

Mukhopadhaya, Debadas (1994) observes that since the privatization has been recently coined there is not single definition as yet universally accepted by one and all. Interpreted in a narrow sense, the term privatization mainly broadly means a change of ownership from state to the private sector.

The monthly commentary on Indian economic condition in its issues of September 2002, July 2000, October 2002 made severe criticism of the policies on disinvestment under national democratic alliance government and warned further that if the govt. does not change its policies on disinvestment it will face disastrous results in the general elections for the national democratic alliance. The NDA govt. did not read the writing on the wall and proceeded with the disinvestment in the most reckless, irresponsible and dubious manner.

In an article published in Business India Oct 1998, Journal of the Institute of Public Enterprise July-September 1997, Southern Economist May 1998, Prestige Journal of Management And Research April-October 2002, Journal of The Institute of Public Enterprise, Jan-June 2002, an article by Gangadhar, V. and Vadagiri (2002) M Maharana and K.K., Ray (2002), published in Indian Journal of Commerce, Prakash Rao and Ramana Rao (2001, the authors have by and large argued and case of disinvestment and suggested to exercise restraints. Further the articles by Rama Swamy (1997) on disinvestment in central public sector enterprises in India in the January-July issue of the journal of Institute

of Public Enterprise, by Rath A.K (2001). Disinvestment in central public sector enterprises in India, by Sharma, Atul (2002) in India-restructuring and privatization and by Simrit Kaur (1998) on public enterprise disinvestment in India-a theoretical and empirical framework published in January-June1998 the authors have gone against making the case of disinvestment.

Trivikram, K. (2001) on disinvestment in Central public sector enterprises-some reflection, published in prestigious Journal of the Institute of Public Enterprise, by Shastri Sandeep on public sector disinvestments reassessing the role of state (2002), Singh – Pradeep Kumar and Khatik S K (2002) on disinvestment in Public Sector Units in India, Stanley, B.J. (2001) on critical review-disinvestment in Indian Public Sector, have analysed the economic aspects of public sectors have argued the importance of these sectors for the economy.

Narendar, Niketan (2004) has supports the idea of the disinvestment but at the same time says that there is very severe criticism of the methods adopted by the NDA Govt. in selling the public sector undertaking on a throw away price Balaji, P. (2002), the approach of most of the cities of disinvestment of public sector undertaking is very cautious and inspired by the patriotic sentiments of throwing away national assets in a distress sale, the role of NDA govt. and Mr. Arun Shourie the Disinvestment Minister has be uniformity criticized in implementing disinvestment policy. He has appealed to the then NDA Govt. and its leaders not to be reckless in pursuing the disinvestment policy and had warned in there articles uniformity that if then NDA Govt. continued with its policy of disinvestment in rash and feverish way it will meet very disastrous results in elections.

Prem Shankar Jha (2005) in his book titled "Economic Reforms in India" discusses the need for privataisation, in a sense taking money out of public sectors and has made a well argued case for the same. Deepak Nayyar (2005) the Vice-Chancellor of Delhi University on in his work titled "Intelligent person of guide to liberlisation" too has warned the policy makers not to go recklessly wit disinvestment and has provided useful insight for the prospective investors factors to be considered while going for investment in the off loaded shares of PSUs. Ribha Mathur (2005) in his work titled "Disinvestment of Public sector enterprises in India-Policies and Challenges" has also made a clear case for disinvestment.

He has provided a brief historical perspective to the public sector presence then provided the reasons for disinvestment. He has critically examined the lessons one should learn from West.

Prakash, Jagdish, Nageshwar Rao and Others (2006) in their work "Administration of Public Enterprises in India" in their book have cautioned the government to go slow with the process and they have to the extent of saying that after all this is not the last government in the country. Roy, R.C. (2006) in his work "State Public Enterprises in India" discusses the reasons for unsuccessful PSUs and has highlighted the policies of government responsible for the failure. Singh, R.K.P (2007) in his work "Organisation and Management of Public Enterprises Published" has also argues for the need of disinvestment. The thesis he built is around profitability of public and private sector and has argued that private sector shall not erode the wealth at all. Anna, K. K. (2007) in her work "Management of Public Sector Enterprises India" has emphsised the need for professional management of public sectors rather than day to day interference of the government. He has in a sense concluded that so long as the bureaucracy does not limit its interference, PSUs functioning shall continue to be affected adversely.

Chandrashekhar, C.P. and Jayoti Ghosh (2006) have criticized the disinvestment policy of the NDA Govt. In their work titled "The Market that failed" they have discussed the reasons as to why the policy of government failed to realise the objective with which PSUs were crated.

A highly valuable piece of document that provides comprehensive account of everything one may like to know on the disinvestment is **Disinvestment Commission Report**. It has several reports running into hundreds of pages. Attempt has been made to summarize all the reports and to provide summary of these reports having a bearing in this thesis.

In the first report of Disinvestment Commission, it had evolved guidelines on modalities of disinvestment on different aspects of the disinvestment process. The objective of evolving these guidelines was to enable consistent application across all PSU's and also to serve as transparency of the disinvestment process. The Disinvestment Commission submitted its report in April 1997 and approving the first report the government made recommendations, to strengthen PSU's were appropriate in order to facilitate disinvestment, to protect

employee interest, to broad based ownership and to augment receipts for Govt. The Disinvestment Commission gave specific recommendations on Bharat Aluminum Ltd. (BALCO), Bongaigaon Refinery and Petro-chemicals Ltd. (BRPL)

Disinvestment Commission submitted its subsequent report in May 1997 and observed review of progress in disinvestment. The commission has evolved detailed guidelines on modalities and procedures of disinvestment specific recommendation in regard to 15 PSU's out of the 50 PSU so far refer to it have been submitted in its three reports. It gave specific recommendations about Container Corporation of India Ltd (CONCOR), Kundremukh Iron Ore Company Ltd. (KIOCL), Mahanagar Telephones Ltd., Oil India Ltd., Oil and Natural Gas Corporation Ltd. (ONGC) and Rail India Technical and Economic Services Ltd. (RITES)

The disinvestment commission submitted its report-IV in August 1997. It approved the I, II and III reports of the disinvestment commission generally and made specific recommendations for Hindustan Copper Ltd. (HCL), Pawan Hans Helocopter Ltd. (PHL), Power Grid Corporation of India Ltd. (Power Grid) and Shipping Corporation of India (SCI) The disinvestment commission in November 1997 submitted its Report-V and has taken note of the progress so far in implementing the recommendations about Engineers India Ltd. (EIL) Engineering Projects (India) Limited (EPIL), Hindustan Prefab Limited (HPL), IBP Company Ltd (IBP), National Thermal Power Corporation (NTPC) and NEPA Limited (NEPA)

Disinvestment commission submitted its report-VI in December 1997 and made specific recommendations about some of the public sector undertakings referred to it.

1) Electronics, Trade and Technology Development Corporation Ltd. (ET & T).
2) Hindustan Vegetable Oils Corporation Ltd. (HVOCL)
3) Hindustan Zinc Ltd. (HZL)
4) Hotel Corporation of India (HCIL)
5) National Hydro-electric Power Corporation Ltd. (NHPC)
6) Pyrites Phosphates and Chemicals Ltd. (PPCCL)
7) Rehabilitation Industries Corporation Ltd. (RICL)

The disinvestment commission submitted its Report-VII in March 1998, in which there has been a change in the government's stand. In the VII report the recommendations were made with regard to the following PSU's thus taking the total number of PSU's dealt with by the commission to 41 out of 43. The remaining two have not be covered in this report. These include:

1) Fertilizers and Chemicals (Travaneore Limited)
2) India Petrochemical Corporation Ltd.
3) National Aluminium Company Ltd.
4) National Fertilizers Ltd.
5) Neyveli Lignite Limited
6) Steel Authority of India Limited
7) Hindustan Latex Limited

In its VIII Report, submitted in August 1998, its specific recommendations were about Air India and Central Electronics Ltd. It is also recommend that priority should be accorded to the performance improvement of CEL to make it independent and commercially viable and recommended the reduction of manpower by introduction of an attractive Voluntarily Retirement Scheme (VRS).

The disinvestment commission submitted its Report IX in March 1999 and made specific recommendation about Hindustan Steel Works Construction Ltd and State Trading Co-operation of India. The commission submitted its X report in June 1999. In its VII report it observed that in 1996-97 government had referred a total of 50 PSUs to the commission. Govt. then withdrew 7 PSUs, effectively leaving 43 PSUs for the commission to examine and give its recommendations. Commission had in VIII report submitted its recommendation in respect of all these 43 PSU's. The VIII report of the commission was submitted in August 1998. The 10 PSU's were deferred to the commission in January 1999, and another few in April 1999. Out of these, 5 PSUs were already under reference of BIFR. Thus out of 22 PSU's referred to the commission in 1998 and 1999, five already stood referred to BIFR. In the tenth report the commission has given its recommendations in respect of 4 PSU's including ONGC on which the commission had earlier suggested that disinvestment be deferred. It gives specific recommendations about the following PSUs.

1) MMTC Ltd
2) National Mineral Development Corporation Ltd. (NMDC)
3) Oil and Natural Gas Corporation (ONGC)
4) Pradeep Phospates Ltd (PPL)
5) Project and Equipment Corporation Limited (PECL)

The Disinvestment Commission Submitted its Report XI in July 1999 and made specific recommendations about

1) Metallurgical and Engineering Consultants India Ltd. (MECON).
2) The Metal Scrap Corporation Limited (MSTC)
3) Mineral Exploration Corporation Ltd. (MECL)
4) Sponge Iron India Ltd. (SIIL)

The commission had recommended that disinvestment should be deferred in certain PSU's which are Oil, ONGC, MOIL, NTPC, NHPC, NLC, and Power Grid, The commission had also recommended that the disinvestment be deferred in certain PSU's wiz SAIL, CEL and PEC pending fulfillment of certain specified conditions. It made specific recommendations about –

1) Bharat Heavy Electricals Ltd. (BHEL)
2) Hindustan Insecticides Limited (HIL)
3) Hindustan Organic Chemicals Limited (HOCL)
4) Rashtriya Chemicals and Fertilizers Limited (RCFL)
5) Rashtriya Ispat Nigam Limited (RINL)

To sum up it is submitted that the reports I to XII are the basic document ion the disinvestment policy in India and all the issues by the governments were considered by seriously and disinvestment commission had examine all the aspects of the disinvestments of public sector undertakings. Later the NDA Govt. did wind up the disinvestment commission because it had become an obstacle in the way of NDA Govt. The NDA government set up a separate ministry of disinvestment, under the leadership of the persons belonging to Bhartiya Janta Party. The first disinvestment minister was Mr. Arun Jaitely and when there was hue and cry about his policies in parliament and outside, he was substituted by the journalist turned politician Mr. Arun Shourie as a disinvestment minister.

His policies were also challenged by NDA convener Mr. Goerge Fernandes and JD(U) leader Mr. Sharad Yadav. There was strong criticism even in the inner coterie of RSS and BJP. RSS openly opposed the sale of National assets. The RSS ideologue Govindacharya disassociated himself publicly with the policies of A.B. Vajpayee government on disinvestment.

The UPA government led by the father of liberalization and disinvestment. Dr Manmohan Singh after enduring power assured the people of India that National Assets will not be sold out in a reckless manner. The disinvestment will continue but due care will be taken to protect the national interest and pride. The Govt. led by the Dr Manmohan Singh has framed a common minimum programme of UPA (United Progressive Alliance) which as but lot of emphasis on the disinvestment of public sector undertaking and has clearly led down that only non-profit making PSU's may be considered for disinvestment with certain conditions and strict compliance of procedures. We will consider the basic documents of Narsimha Rao govt. which initiated the process of Disinvestment, Common Minimum Programme of United Front Govt. and the CMP of NDA and the recommendations and reports of disinvestment commission and also the common minimum programme of the UPA govt. at appropriate occasion in our thesis.

Coming the news items appeared in various news papers, business times etc, following news items are being considered relevant by the scholar.

Business Line (28 May 2004) The CMP has stated that profit-making public sectors undertakings (PSUs) will "generally" not be privatized and all privatizations "will be considered on a transparent and consultative case-by-case basis." The Navratnas (IOC, ONGC, HPCL, BPCL, NTPC, BHEL, SAIL etc.) would, in particular, be retained in the Public-Sector fold and no PSU would be privatized if it leads to the emergence of a monopoly or restricts competition. This virtually rules out the sale of companies such as Nalco. Similarly not only public sector insurance companies would be privatized, but also the social obligations imposed by regulatory bodies on private banks and insurance companies "will be monitored and enforced strictly". Major highlights are as under:

- Economy to grow by at least 7-8 percent annually
- Revenue deficit to be eliminated by 2009

- Cess on all central taxes for promoting universal education
- SEBI to be strengthened
- Privatisation to be on a case-by-case basis
- 'Generally' profitable PSUs not to be privatized
- Special scheme to unearth black money and assets to be introduced
- FDI, FII investments to be encouraged
- LIC, GIC to remain public sector entities
- PSU banks to be given full managerial autonomy
- Automatic hire and fire regime ruled out
- Labour Laws and Industrial Dispute Act to be reviewed

Business Standard, New Delhi (28 May 2004) in a write up "Thumbs down for many reforms" it has been summarised that the United Progressive Alliance's Common Minimum Programme (CMP) has put on the backburner reforms in at least three crucial-areas-disinvestment of profit-making public sector undertakings, labour law changes and privatization of power utilities. Their views on various sector are as under.

On Power

- Review Electricity Act
- Deadline for unbubdling of SEBs to be extended

On Privatisation

- No to navratnas sell-off
- Revival of sick PSUs

On Employment

- Act to guarantee job for a minimum of 100 days

In other place in the same magazine, it is summarised that the UPA government also laid special emphasis on the public sector by promising to devolve full managerial and commercial autonomy to successful, profit-making companies operating in a competitive environment. For pensioners and senior citizens, the CMP promised higher interest rates

and said that the employees' provident fund (EPF) interest rate would not be changed without prior consultation and approval of the EPF Board.

The Times of India (28 May 2004) in a caption "Reforms, targets stay on track', says that the Economic reviews are alive and kicking, that's the central message of the Common Minimum Programme (CMP). We will persist with economic reforms, but reforms with a human face", as Manmohan Singh summed up the economic policies and programmes. The Left hasn't hi-jacked reforms. In all key areas like fiscal consolidation, taxation, infrastructure, public sector, industry and labour, the CMP pushes liberal policies.

There is greater emphasis on redistributive policies, so that benefits touch all sections of the people. So, the growth target has been kept at 7-8% annually for 10 years. Nobody's talking of double digit growth. Does this point to growth pessimism? No. The PM made it clear that the government will shoot for even higher growth, but not in vacuum. It would device policies and programmes to back it.

The CMP keeps all options open for disinvestment. Profit-making PSUs will not "normally" be privatized, the PM said. But government might privatize even profit-making PSUs in case they drive their profits in monopoly situations but cannot do so in competition with other enterprises. As such, profit-making PSUs will be free to divest in the market as long as their "pubic sector character", meaning government control, remains intact. Same would be the case with the nationalized banks. For all other PSUs, the options of privatization or handing over them to private sector on management contract would be freely exercised.

The Tribune, Chandigarh (28 May 2004), on the issue of disinvestment and privatization of the public sector, the drafting skills of CMP's the authors have ensure that there is room for maneuver. This was evident when the Prime Minister maintained that "normally, profit-making public sector companies" would not be privatized.

The CMP maintains that all "privatization will be considered on a transparent and consultative case by case basis." It also states that the UPA will retain existing "navratna" companies in the public sector though they would be allowed to raise resource from the capital market. Dr. Singh explained that if a company is making profit because of monopolistic conditions, then disinvestment could not be ruled out.

The Times of India, New Delhi (28 June 2004) in the caption CMP: A Tale of Deletion and Dilution maintains the following.

- Economic growth target of 7-8%
- Legal guarantee for 100 days of employment
- Cess on all central taxes for funding education
- Moderate and stable tax rates
- VAT to be introduced
- Special schemes to unearth black money
- Disinvestment ministry scrapped, will be under finance ministry as a department
- Profit-making PSUs not be privatized but can divest in market; Navratnas to stay government controlled.
- Foreign direct investment to be encouraged in infrastructure, high technology and exports
- Labour laws to be re-examined
- SEBI to be strengthened
- Fill investment to be encouraged, but misuse of tax treaties to be curbed
- Integrated energy policy; energy security to be enhanced.
- A national manufacturing competitiveness council to be set up
- Strengthening public distribution system.
- Review of Electricity act, 2003
- Protect National Interest of Farmers at WTO; play proactive role in G-20
- Trade and investment with China to be enhanced.

The Statesman, New Delhi (4 June 2004) in the caption "More planned but where's the money" summarises that there could be higher buoyancy in terms of more revenue from taxed but not a huge amount. To cover for the rest of the expenses will be a problem. There is the possibility of reallocations within the current plan which means slashing current projects. There could also be an amount of dovetailing – for example, the people who cook mid day meals could be paid by out of fund under a separate head. The bigger problem is of state finances. The total debt is Rs.55,000 crores and what the government will do to manage this problem, spiraling out of control also has to be seen commission officials said.

The Hindu, Chennai (31 May 2004) under the heading "No Major Policy change Likely in the Disinvestment" says that the "Profit making PSUs will not be privatized, generally". What is the need for the appendix, 'generally'? It seems to be a very significant and late addition. Again, what is meant by privatization? A PSU can become a private company only if the government disinvests more than 50 percent of its holdings or hands over administrative control to a private group. If less than 50 percent of the holdings are given away and a nominal administrative control is retained, it cannot be called privatization. So, massive disinvestment, that has come to be termed as selling family silver, can continue.

Selling family silver is in itself not bad. It can be a good proposition if the cash received from sale is used for generating more wealth. Take the case of LIC of India. It has a huge volume of hidden, idle wealth like family silver. It can be utilized to generate more than wealth for the nation. This idle wealth, known as the embedded value, is the discounted value of future profit flow. This year, the Government will be getting Rs.500 crores as dividend and this will be increasing by not less than 10 percent each year. If 20 percent of the Government's holding in the LIC is offered to the general public, the money raised can not only help the corporation in creating an explicit reserve, but also enable the government to have ready access to resources at reasonable cost.

The Economic Times, New Delhi (29 May 2005) in the caption "States go easy, you've less debt burden" says that a fresh package to ease the debit burden of states in on the cards. The common minimum programme (CMP) of the United Progressive Alliance (UPA) has made a commitment to improve the fiscal health of states by reducing their debt burden, lowering the interest on loans and enhancing the states' share in the divisible pool taxes. Fiscal consolidation figures as an important agenda in the CMP given the strength of the coalition partners in the Congress led government.

Business Standard, New Delhi (7th June 2004) in the caption "Long on Farm sector, short on PDS reforms" mentions that the Common Minimum Programme (CMP) of the United Progressive Alliance (UPA) promises protection to farmers against imports and a jump in public investment on agriculture and irrigation. But it does not propose any radical reforms in the public distribution system, evoking some adverse comments from the Left parties, which are supporting the government from outside.

The Hindu Business Line of 8 June 2004 quotes President's Kalam's Speech "Lest there should be any doubt about how this going to be accomplished, the government reiterates its commitment to eliminating the revenue deficit of the Central Government by 2009 so as to release more resources for investment in social and physical infrastructure. "Subsidies will be targeted sharply at the poor and needy. A detailed road map will be prepared for this purpose".

The Government need not waste time in preparing the roadmap on this as its present Finance Minister, during his pervious tenure in the North Block, commissioned a detailed study on merit and non-merit subsidies, which must perforce be dusted off from the shelf for focused action sooner rather than later.

The Hindu Business Line in its 8 June 2005 issue on disinvestment mentions that the UPA government aid considers privatization on a case-by-case basis and developed full managerial and commercial autonomy to successful profit-making companies operating in a competitive milieu. It further went on to add that public banks would be encouraged and nationalized the capital market to raised resources and offer new investment avenues to retails investors.

Former disinvestment Minister Arun Shourie told Business Line in the Central Hall of Parliament, "As days pass by, the statement of the Government on Privatisation and disinvestment come resemble more and more exactly what was being done by the Vajpayee Government and this is to be expected. I have long argued that there is a consensus in practice and these changing statements make that very clear every day."

In sum, the new Government's attempt to balance reforms with human face would compel it not to jettison well-tested ideas it practiced in power during the Narsimha Rao Government, which it accused the successive governments to have hijacked for electoral gains. The cycle has come a full circle. Notwithstanding the jibes and protests from the Left parties, some of the opposition leaders in Parliament said.

Hindustan Times, New Delhi in its report dated 2 June 2006 mentions that "We're not against disinvestment as such. But we believe it should be properly prioritized and carried out by the finance ministry after consultations with the concerned administrative ministries in a transparent manner," the SJM leaders said. Also observing that the Left had got the

largest number of MPs ever in the recently concluded Lok Sabha elections, Rao hoped they fully realised the responsibility the people had entrusted them with.

Business Standard, New Delhi in its editorial dated 22 June 2005 says that "Generally' profit-making, public sector companies will not be privatised. That pretty much terminates existing policies for disinvestment / privatisation. The capital market has certainly taken that view and hugely reduced stock valuations of PSUs. Corridor gossip confirms serious inactivity in the Department of Disinvestment. As for loss making enterprises, the chances of successful sales by government are next to nil. Who will have the courage to set reserve prices low enough total low successful transactions?

The question remains, "Who will bid for the PSUs which are loss- making?" It is even more intriguing that the CMP is defining the target units for privatisation as those who have settled their dues to labour. This will itself mean a burden on the fiscal before even starting to privatise. It must be conceded that the door is kept open for the "navaratna" PSUs of this category raising funds from the capital market, presumably through equity offerings.

In The Tribune, Chandigarh, dated 29 May 2005, it is argued that while in opposition. the Congress had opposed the sell off of oil PSUs only. Now it talks of granting managerial autonomy to state enterprises. Disinvestment policy stays, privatisation is out. It had backed the passing of the Electricity Act and Congress governments in states have been pursuing power reforms in accordance with the party's economic agenda. There is an about-turn in Andhra Pradesh where the Congress government has announced free power for farmers. The Punjab Government too is keenly awaiting the green signal. The party's Political compulsions are understandable.

In The Hindu, Chennai, dated 31 May 2004, in a caption "Good intentions by themselves will not help' it has been said that while focusing on growth some critical issues of economic policy surface. Policies In the past depended heavily on disinvestments FDI service exports. These three areas have become areas of intense scrutiny in the new policy environment. Disinvestments as a means of resource mobilisation cannot be relied upon significantly. The tempo of FDI, especially financial capital inflows, is likely to come down. Business process outsourcing and manpower exports, other things being equal are likely to be a major reliable source in the coming few years.

A better approach will be to divest shares in PSU to the general public and allow these companies to become large publicly held companies, with major shareholdings by banks, insurance companies, FIIs and mutual funds. This will also allow them to have managerial autonomy. Allowing them to remain in the public sector probably destines a number of them to a slow death. Governments usually promise autonomy but in practice in India they remain handmaidens of the political bureaucratic nexus. There is no particular reason to believe that this time it will be different, except perhaps for the new guiding light in the form of the Prime Minister.

Looking at the views expressed by the representatives of the industry is also of prime importance. The officials are the nerve of the industry and have wealth of experience with them. Some of their comments are in order and are given below.

CII president Anand Mahindra said that the CMP seeks to address the concerns of all sections of society. He welcomed the emphasis on economic growth and reforms. Mahindra said the agenda in the CMP would contribute to economic growth and ensure that growth percolates to all sections of society. The UPA government's pledge to enact a National Employment Guarantee Act as well as commitment to step up public investment in rural infrastructure and irrigation should benefit the rural economy, and create employment opportunities.

CII was happy about the m new government's commitment to eliminating the revenue deficit by 2009 and to the early introduction of VAT. The CMP's promise of flexible labour laws and the pledge to protect the legitimate interests of Indian industry and agriculture at the WTO forum is a positive approach, he said.

The Federation of Indian Chambers of Commerce and Industry (FICCI) said the CMP tie provide a clear roadmap for action for the new government and urged the government to implement the individual elements of the CMP in a time bound-manner. FICCI added that commitment of fiscal correction, reforms of the PSUs, speedy implementation of VAT and review of labour laws are commendable. The Electricity Act had encouraged private sector players by raising their confidence towards increasing investments. So FICCI asked the government to exercise caution while reviewing the Electricity Act.

Other chambers like ASSOCHAM and PHDCCI also welcomed the CMP. MK Sanghi, president of ASSOCHAM, welcomed the CMP and said, "The government should be concentrating on developing world-class infrastructure that can attract fresh investments and connect rural India with urban cities enhancing the economic powers of the rural masses.

Sanghi suggested that all the viable public sector undertakings should be given autonomy to facilitate them to take commercially viable decision and suggested the government to get rid of the loss-making units.

PHDCCI president Ravi Wig also welcomed government's resolve to improve social infrastructure and raise employment.

In the popular national daily, Business Line October 14, 2003, the imbroglio over the attempts to privatise HPCL/BPCL, and now bringing up the issue of splitting up IOC could actually jeopardize the entire divestment programme of the Union Government, says Paranjoy Guha Thakurta, who looks at the oil PSUs privatisation that threatens to snowball into a major crisis within the NDA Government.

The controversy surrounding the Disinvestment Minister, Mr Arun Shourie's intransigent position on privatising public sector petroleum companies, especially Indian Oil Corporation and Hindustan Petroleum Corporation Limited, threatens to snowball into a major crisis within the National Democratic Alliance Government. What seems worse for Mr Shourie and his mentors, including the Prime Minister, Mr Atal Bihari Vajpayee, and the Deputy Prime Minister, Mr L. K. Advani, is that the imbroglio over the attempts to privatise these two companies could actually jeopardise the entire divestment programme of the Union Government.

In other words, Mr Shourie may well end up cutting his nose to spite his face. By his actions, he has not merely antagonised his political opponents but also sharpened the criticism of those within the Bharatiya Janata Party-led NDA Gove'rnment who had strong reservations about the methodology deployed by him to privatise some of the largest, best-managed and most"" profitable public sector undertakings. One would not be exaggerating if one argued that the one individual who contends that he is among the biggest votaries of privatisation has willy-nilly become its single biggest enemy.

After the September 16 judgment of the Supreme Court restraining the Union Government from privatizing HPCL without obtaining Parliament's approval, the Disinvestment Minister disingenuously claimed the entire privatisation programme had been derailed. His own ministerial colleague, the Petroleum and Natural Gas Minister, Mr Ram Naik, however, hailed the judgement as a "historic" one. Thereafter, on October 3, following a meeting of the Cabinet Committee on Disinvestment, Mr Shourie contended that the Government would seriously consider a proposal to split the country's largest company, Indian Oil Corporation, into smaller entities before privatising its marketing arm. Newspapers quoted Mr. Naik as saying that something quite different had transpired during the CCD meeting.

It is hardly a secret that the Petroleum Minister had been opposed to the privatisation of HPCL but had been overruled by his Cabinet colleagues at the December 9, 2002 CCD meeting. Mr Shourie had wanted both HPCL and Bharat Petrpleum Corporation Limited to be privatised. However, at that meeting, it was decided that while the larger HPCL would be privatised, the shares of the smaller BPCL would be divested to the public. If the Cabinet eventually decides to privatise IOC and there is no guarantee that it will - it would go back on its own decision not to privatise IOC as well as two other Navratnas (nine jewels) the oil PSUs Oil and Natural Gas Corporation and GAIL Limited.

IOC is India's largest petroleum refining and marketing company with a daily turnover in excess of Rs 320 crore. The management had last year lodged a strong protest when it was disallowed by the Government from bidding for the shares of its smaller sisters, HPCL and BPCL. The former IOC Chairman and Managing Director, Mr M. A. Pathan, had argued that it would be clearly discriminatory on the part of the government if a private corporate group like Reliance was allowed to bid for Indian Petrochemicals Corporation Limited while denying IOC the opportunity to bid for HPCL and BPCL. The Government allowed IOC to bid for IPCL - managerial control over which was acquired by the Reliance group in May 2002 - but subsequently barred one PSU from bidding for the shares of another on the ground this did not result in "genuine" privatisation. (IOC had earlier successfully bid for managerial control over IBP Limited, formerly Indo-Burma Petroleum)

After the Government allowed the Reliance group to control IPCl thereby enabling the combine to hog a more than three fourths share of the country's market for a wide variety of petrochemical products, Mr Shourie's privatisation methodology started encountering concerted opposition from within the BJP and the NDA. It was not merely Mr Naik (whose vast empire as Petroleum Minister was sought to be shrunk) who opposed him but the Defense Minister and NDA convener, Mr George Fernandes, as well who wrote to the Prime Minister in protest. What is especially curious is that an attempt should now be made to split IOC, the only Indian company in the Fortune 500 list, at a time when petroleum companies all over the world over are coming together to become bigger and bigger.

Unlike HPCL and BPCL, both of which were nationalised in the 1970s after taking over the assets of foreign oil companies, there is no legal bar on the government privatising all but a handful of the 236 Central PSUs in India (including the 130 profit-making ones such as IOC, ONGC and GAIL). Yet, the reactions of Mr. Advani and Mr. Shourie make it amply clear that the Government did not believe it would be able to muster the support of a majority of the members of both Houses of Parliament to change the law of the land. This not only indicated that there were sharp differences of opinion on the subject within the NDA but also that there was no political consensus cutting across party lines on the modalities of privatising profit-making PSUs.

Instead of rushing headlong on to a confrontation with the Judiciary, the Government decided that it would merely ask the Supreme Court Bench that passed the order on HPCL to clarify its judgment. The apex court made it dear, that it was not commenting on the government's policy of privatisation but merely asking the Executive to go to the legislature to change the statute before privatising HPCL.

The former Disinvestment Commission Chairman, Mr. G. V. Ramakrishna. has commented that Mr. Shourie should not have acted in "unseemly haste" by asking private groups such as Reliance and Shell to proceed with due diligence of HPCL even as the Supreme Court had reserved its judgment after hearing arguments on both sides.

It is not merely this correspondent but many others who have argued that Mr. Shourie has wrongly choosen to focus his attention and energies on a few high-profile, well-performing

PSUs to the neglect of others that cry out for immediate attention - particularly chronic loss-making companies such as _ National Textiles Corporation. As T. T. Ram Mohan, professor at the Indian Institute of Management, Ahmedabad, aptly remarked: "Mr. Shourie has erred not merely in his choice of firms but in his insistence on a particular method, strategic sale (that entails handing over managerial control of a public sector company to private promoters) as the norm for disinvestment".

IOC and HPCL share around three-fourths of the country's market for petroleum products. The IOC management recently offered to pick up the government's stake in HPCL for roughly Rs 10,000 crore - to make up the shortfall in the budgeted receipts from divestment this financial year - adding a new twist to the episode.

The Reliance and Shell groups are, among others, keen on acquiring the marketing and distribution network of either HPCL or IOC. Whereas Reliance has set up one of the largest petroleum refineries in India and Asia, it so far does not possess commensurate marketing and distribution facilities. On the other hand, the multinational Shell is hopeful of distributing imported petroleum products. It would be expensive for both these groups to set up a marketing infrastructure on their own. And as Mr Ramakrishna points out, given that many retail outlets of IOC and HPCL are at prime locations, a private group may not be able to purchase such property for love or for money. That is why controlling HPCL or a part of IOC would make all the difference for Reliance or Shell. That is also the real reason why Mr. Shourie's policies are as contentious as they are.

3.2 Political Issues and Disinvestment – An Introduction

No other area of economic reforms generated much political controversy in the second-generation reforms than the disinvestment of public sector units. Whatever was the economic rationality behind such reform processes it generated lot of political debates both at the intra-party and inter-party levels. At the intra-party level, it rekindled a rift between the advocates of market reforms and the left-of-centre approach within the Congress party over the pros and cons of the disinvestment policy. On the intra-party front, it was an arena of confrontation between the ruling BJP and the opposition parties especially, the Congress party. Though, Congress was the initiator of the public sector reforms in the Narasimha

Rao regime, it was quite disturbed over the management of public sector under the BJP regime.

The BJP after coming into power carried on the economic reforms initiated by the Congress as it had shifted from resisting globalisation to accommodating it through critical collaboration. The Vajpayee government's commitment to economic reforms was more evident in the budget 2000-2001 which called for accelerating the 'second generation economic reforms'. In the budget the government reiterated the restructuring , and reviving of potentially viable Public Sector Undertakings (PSUs), closing down of PSUs which cannot be revised, bringing down government equity in all non-strategic PSUs to 26 per cent or lower if necessary and for fully protecting the interests of workers. By initiating these reforms, the BJP government countered the Congress who claimed to be the initiator bf reform process in India. Moreover, it proved that there was not much distinction between the BJP's governance of the economy and that of the previous Congress party government.

The BJP regime saw the 'privatisation' of public, sector which was replaced by a more fashionable word, 'disinvestment' of public sector. The government in a further boost to the disinvestment process set up a new department for disinvestment. in March 2000 to establish a systematic policy approach to disinvestment. The rationale behind the policy was that money raised from the sale, of government equity could be used for social security measures like health care, education, rural development, poverty alleviation or even repaying the public debts. But, in the initial phase of disinvestment, the government concentrated on the disinvestment of loss making PSUs, which in the course of time' turned towards the profit making PSUs on the ground that private buyers will not be interested in picking up loss-making units. Moreover, the government handed over the equities to multinationals at much below the market value.

3.2.1 Political and Historical Perspective of Disinvestment

The policy of disinvestment has evolved over a period of time - beginning from the restructuring of PSUs under the Rajiv Gandhi regime - though it did not gain a wider currency as the term 'disinvestment' in the present sense. In the mid eighties there

aroused criticisms over the functioning of the PSUs. Because the PSUs were bureaucratically managed many of them incurred losses the year after. It was argued that the state should not be called upon to meet the losses of these enterprises out of. tax payers money. The rationale of this view was that since the state had to invest more .critical areas, it had to withdraw from, funding the loss making PSUs. Taking this view into account, Rajiv Gandhi in his reform measures took certain steps to restructure the moribund PSUs. The Prime Minister was critical of the inefficient public enterprises for gross overstaffing and low productivity, political interference, non-commercial styles of management and economic pricing policies. His objective has been to try to engender greater efficiency through free use of imported technology, especially advanced electronics, the removal of controls, increased competition and improved management in public sector.

Based on the report of the Arjun Sengupta Committee on Review Policy for Public Enterprises appointed by Indira Gandhi, the Rajiv Gandhi government initiated certain reform measures in the public sector. The report called for redefining the government public enterprises relations and identified certain core sectors like agriculture, irrigation, railways etc. in national planning. The government strategically denounced the idea of the public sector's monopoly and opened up to high technology and foreign capital. The government's role was restricted as it was primarily concerned with overall strategic planning and policy, rather than with the day to-day functioning of public enterprises. As a first step towards liberalization, the government removed 25 industries from its list of those that required a 'license prior to entry, decontrolled some prices and .certain sectors which were previously reserved for state control were opened competition. The share of public sector investment on total planned, outlays declined from 53 per cent in the Sixth Plan to 48 per cent in the Seventh Plan.

V. Krishnamurthy made suggestions for public sector and based on this, the government issued a white paper on public sector suggesting the privatisation or closure of public sector undertaking which were making losses recurrently. But the stiff criticism from both within the party and the opposition, the trade unions' campaign to 'save the public sector' and the fading image of the government in the corruption scandals forced the government to not implement its recommendation. It was stated that the politically dam-

aged Rajiv Gandhi was not eager to provide further ammunition to the opposition to attack him, in this instance it was the alleged betrayal of socialism and the Nehruvian (policies of Mr. Jawahar Lal Nehru, India's first Prime Minister) legacy.

Politically, the public sector reforms evoked concern within the Congress party. There were wider apprehensions about the total abandonment of the party's longstanding policy towards the public sector which was vital for 'the commanding heights of the economy. Apprehensions were more explicated among the Members of Parliament that it was a deviation from the party's economic policy. In the midst of the augmenting criticism against the public sector reforms and the attempt to revive the party's commitment to the public sector, a two-day seminar was organized by the Economic Advisory Cell of the AICC (I) on 24-25 April, 1986 in New Delhi on "Public Sector on Indian Economy: Problems and Prospects". The late Prime Minister. Rajiv Gandhi in his capacity as the Congress president reiterated the party's commitment to the public sector. He said:

" .....The growth and development of the public sector has been a corner stone of the Congress party's economic policy. The public sector has come to occupy a crucial position in the economy, and has played a vital role in the building up of the infrastructure and in the overall industrial development of various regions, particularly the backward areas. Our large and diversified industrial structure today bears a testimony to this fact".

During the last phase of his term, Rajiv Gandhi reiterated that the public sector must give the lead. While addressing the Chief Executives of Public Sector units in New Delhi on 14 January 1988 the Prime Minister urged the public sector to give top priority to generating internal resources and not to expect any budgetary support.

'According to him, the public sector has had and must -continue to have strategic role in development. It had to improve its performance and act as the engine of our self-reliance and economic independence." Swamy (1994) aptly describes the changing role of the state in relation to the weakening role of the PSUs. According to him, 'until 1980, it pursued a set of policies that created a favourable environment for the expansion of public sector. Thereafter, it gradually detached public enterprises from budgetary support, leaving them

to finance their expansion through funds raised from the capital market as also opening their 'reserved' sectors to private enterprises'.

3.2.2 Disinvestment under Sri Narasimha Rao Period

In the economic reform measures of Narasimha Rao government public sector reform constituted one of the important issue areas. Mainly two factors influenced the government's reforms in public sector. Firstly, the collapse of the Soviet Union and the setback of communist regimes in East European countries overshadowed the significance of PSUs in the economic development. Secondly, the altering role of the State and market in economic development reversed the role of the public and private sectors. Privatisation and deregulation, the twin components of the economic reforms affected the dominant role of the public sectors. The government was quite critical of the performance of PSUs in the reform process. Its argument was that though public sectors has contributed significantly to the diversification of India's industrial structure, its contribution in terms of generating internal resources for further expansion had fallen short of expectations, and its inability to do so had become a major constraint on economic growth. According to government sources, the performance of the public sector deteriorated sharply in 1990-91 when the net profit (after tax) of all non-departmental central public sector enterprises declined to Rs. 2368 crore from the level of Rs. 3789 crore reached in 1989-90. The poor performance continued in 1991-92. The government's view was that not only the budgetary support to public sector enterprises should be scales down and thereby financial discipline maintained in their operation but it should also be exposed to competition.

In 1991-92 the government undertook a limited disinvestment of a part of the public sector equity through public institutions and mutual funds in order to raise non-inflationary finance for development. The objective of disinvestment was stated to be providing further market discipline to the performance of public enterprises. It has to be remembered that in the reform budget of 1991, the government proclaimed that 'in order to raise resources, encourage wider public participation and promote greater account ability, up to 20 per cent of government equity in selected public sector undertakings would be offered to mutual funds and investment institutions, in the public sector, as also to workers in these firms. It hoped that such a limited disinvestment would bring greater public accountability and help

to create a new culture in their 'Working and thereby improve efficiency. Keeping this view, the government experimented limited disinvestment in certain public sector enterprises. For example, some of the profit making public enterprises such as National Aluminium Company Limited (NAICOL), Hindustan Zinc Limited (HZL), Indian Petrochemicals Corporation Limited (IPCL), Bharat Heavy Electricals limited (BHEL), Hindustan Machine Tools (HMT), and National Thermal Power Corporation Limited (NTPC) sold about 20 percent of their equity holdings.

Politically the public sector reforms generated an intra-party debate on the approach of, the Congress as most of the provisions in the reforms seemed to be antithetical to the interest of the party. For instance, the replacement of Industrial. Disputes Act by a new industrial relation act weakened organised workers. Secondly, the policy of denationalisation resulted in the loss of much of the concessions which the employees enjoyed for a long time. Since these sections constituted the important political constituencies of the Congress, the public sector reforms adversely affected its support base among them. It has to be seen that even with the pressure from the international financial agencies for more public sector reforms, the presence of organised labour in India was a constraint to public sector reform due to two reasons: existence of labour laws and the importance of labour unions as political constituencies. In other words, 'while external pressures served primarily as an impetus for the public sector reform, internal economic and political factors have functioned primarily as constraints to reforms. The Congress plenary session in Tirupati in 1992 saw an ideological debate on the issue of public sector reforms. The advocates of the left-of-centre approach charged that the reforms diluted the party's commitment to the public sector in its economic policy and strategy. But the advocates of reforms tried to legitimise it with the election manifesto for the year 1991. According to them the party in its manifesto while affirming its faith in the role of public sector hinted at certain reforms. The manifesto emphasised that 'the public sector is crucial to the growth of the Indian economy, industry and employment. However, over a period of time some public sector companies have become lethargic, inefficient and expensive. This situation needs to be set right. However, at the end of the session a consensus was arrived at that the restructuring of PSUs intended to restore its heath and profitability.

3.2.3. Disinvestment under the United Front Government:

In the mid nineties when the Congress space in Indian politics was shrinking. new coalitions were formed at the central level. On 1 June, 1996 the United Front (UF) and the Left Front coalition government under the leadership of H.D. Deve Gowda came into power with the outside support of the Congress party. The economic management under the UF government generated concerns among the advocates of economic reforms. This was because the sustainability of the government depended on the outside support of the pro-reform Congress and the critique of the reforms, the left parties, especially the Communist Party of India (Marxist)

The restructuring of the public sector was one of the key areas of reform of the UF government. As a new direction on the reforms in public sector on 23 August. 1996, the United Front government set up a five-member disinvestment commission in pursuance of a promise made in the CMP. It was set up for a period of three years with an objective to determine the extent of disinvestment in each of the PSUs, to prioritise the PSUs referred to it by the Core Group in terms of the overall disinvestment programme, etc. Its major objectives were; using disinvested funds for social and infrastructural purposes, increasing efficiency and productivity of enterprises by exposing them to the discipline of the market and reducing political interference in running these enterprises and lending professionalism. It was an advisory body to the government in matters relating to the final decision on the companies to be disinvested and also the mode of disinvestment. The privatisation of public enterprises had been limited to partial disinvestment with the government retaining control. In a significant move the government referred 40 PSUs to the commission for advice.

3.2.4. Disinvestment under the BJP Government:

The post Rao phase saw the emergence of BJP from the role of the main opposition party to the ruling party at the Centre. BJP formed the government for a short span of 13 days after the 1996 election and doubts arose about the continuation of the economic policies initiated by the previous Congress government. It has to be remembered that the BJP, when it was in opposition, criticised the Rao government on many policy initiatives related to economic reforms. On 17 May, 1996 a day after the Vajpayee government assumed power, the new

Finance Minister Jaswant Singh stated that Rao's economic reform was safe if the BJP was allowed to continue in power beyond 31 May (the deadline for proving its majority in the House). He not only endorsed the previous government's reforms, but also promised to accelerate them and create conditions for easier inflow of foreign investment. He stated that there would be a continuity of policy and that all the contractual obligations of the previous government would be honoured. According to him, 'swadeshi' (country made) was not an anti-reform word. His view on foreign investment was that India would remain the favourite destination for investment.

In fact, the BJP's perception on economic reforms was similar to that of the Congress in a way. For instance, reflecting the Congress' approach, the Industry Minister added, 'We have reached a stage where we cannot go on subsidising the PSUs as we have other pressing areas like social sectors including health, education and sanitation where we will have to spend more ... the public sectors will have to learn to survive on their own'.

The first budget (1998-99) of the second Vajpayee government was presented on 1 June, 1998 by the Finance Minister, Yashwant Sinha. The budget decided to bring down its share holding in the PSUs to 26 per cent in most of the cases. At the same time, it clarified that the government would retain majority holding in PSUs involving strategic considerations and the interests of the workers would be protected in all cases. In order to expedite the disinvestment process, the government had decided to disinvest specified portions of equity from Indian Oil Corporation (IOC), Gas Authority of India Limited (GAIL), Videsh Sanchar Nigam Limited (VSNL) and Container Corporation of India (CONCOR).

The BJP government intensified the economic reforms at various sectors. The 'privatisation of the public sector' was replaced by a more fashionable phrase 'disinvestment of public sector'. One of the main strategies of the budget 1999-2000, as pointed out by the Finance Minister, was to 'deepen and widen economic reforms in all major sectors and accelerate internal liberalisation to release productive energies, creativity of farmers, manufactures, trade and service providers'. The government's strategy towards public sector enterprises, as claimed by the government, 'encompass a judicious mix of strengthening strategic units, privatising non-strategic ones through

gradual disinvestments or strategic sale and devising viable rehabilitation strategies for weaker units.

In a drastic move in public sector policy, on 16 March, 1999 the government classified the public sector enterprises into strategic and non-strategic areas for the purpose of disinvestment. The strategic public sector enterprises included, the areas of defense and communication and allied items of defense equipment, defense aircrafts and warships, atomic energy and railway transport. All other RSUs were considered non-strategic. The government decided to reduce its stake to 26 per cent in the non-strategic areas. It was decided to restructure and revive potentially viable PSUs and to close down those PSUs which could not be revived.

The period of the BJP rule saw a receding ideological opposition to economic liberalisation between the ruling party (the BJP) and the main opposition party, the Congress. The Congress raised its resentment over the public sector reforms and it was seen that it came out of its political compulsion rather than political conviction.

The important milestones in the approach of the Congress on the disinvestment policy were the Economic Introspection, Group (EIG) headed by Sri Pranab Mukherjee and the Bangalore plenary session of 2001. Both proclaimed at the party was committed to the strengthening of the PSUs and pronounced the crusade against the disinvestment policy of the government. The EIG emphasized that the party had 'objected to the present ideological assault on the public sector'. It did not to see privatisation as a panacea for the crisis in the PSUs and pronounced that the disinvestment policy must be put in place with the approval of Parliament before pursuing the kind of massive across-the-board operations as posed by the present government. The party claimed that the public sector that had built up India's Industrial and technological muscle, developed the backward areas, promoted social justice, and made available job reservations for the disadvantaged communities, was being subjected to an ideological assault. While opposing the government's approach to disinvestment of the profit making PSUs, the party viewed that public enterprises that were making healthy profits on a continuous basis in a competitive environment should be provided opportunities for further growth. On the other hand, it favoured the closing down of chronic, non.-profit making PSUs in a humane manner by protecting the interests of

workers. Jairam Ramesh further clarified that the party was opposed to arbitrary disinvestment, I especially to meet the fiscal deficit. It opposed the same criterion for disinvestment being applied to both profit and loss making PSUs. The *Navratnas,* which later became *Dashavatar* - Indian Oil Corporation (IOC), Bharat Petroleum Corporation limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL), Oil and Natural Gas Commission (ONGC), Gas Authority of India Limited (GAIL), Mahanagar Telecom Nigam Limited (MTNL), Videsh Sanchar Nigam Limited (VSNL), Bharat Heavy Electrical Limited (BHEL), National Thermal Power Corporation (NTPC) and Steel Authority of India Limited (SAIL) should not be disinvested.

The Congress party, in the second generation reforms, tried to bring back various alienated sections into its fold and thereby strengthen its mass base. The party forums and policy debates saw renewed efforts to address the interests of the socially marginalized sections like Dalits and Tribals (lower cast). Though, the party played a 'constructive' role in Parliament, in helping out the government in the economic reform process, it publicly dissociated itself from the privatisation process, terming it 'anti-lower caste' because of the loss of reserved jobs in the public sector. This stand was further elaborated in the Shimla Declaration of the party. It says 'the start of a purposeful dialogue with private industry was based on how best India's social diversity could be reflected in the private sector in different ways like reservation and fiscal incentives, low privatisation were inevitable to protect the welfare of the weaker sections of society and. how government procurement can promote entrepreneurship among dalits and divasis'. Thus, the party attempted to counter the propaganda that it deviated from: its commitment to these sections by implementing market-oriented, economic reforms.

A micro analysis of the debates and discussions in the party forums and the divergent views expressed by the party leadership show that the Congress is still contemplating the merits and demerits of the disinvestment policy. Even though resolutions after resolutions reiterated that the profit making PSUs should not be privatised and the equity for disinvestment in the loss making PSUs should be below 50 per cent, pro-reformists are sceptical about this view. Just as the opinions of Vajpayee, Arun Shourie and Arun Jaitely can be contrasted with those of Murali Manohar Joshi, Ram Naik and Uma Bharati in the BJP together with George Fernandes and Sukhdev Singh Dhindsa, the views of Jairam

Ramesh and Mani Shankar Aiyar, Vayalar Ravi and Pranab Mukherjee represent diametrically opposite poles within the Congress_ For instance, Jairam Ramesh viewed, 'as far as privatisation is concerned, Vajpayee government has taken bold steps although only one deal relating to the sale of Modern Foods to Hindustan Lever has been consummated so far.

3.2.5. Conclusion of Political Issues

Whatever may be the official version, the Congress party in the second-generation reform is in a quandary after the BJP government 'hijacked' its economic agenda. Though it was the initiator of the reform process and subsequently the principle opposition party under the economic management of the BJP government, the Congress had not taken a clear-cut stand on the economic policy matters, especially on the disinvestment policy. It was yet to draw a dividing line between its approach and that of the BJP government. It is obvious that the Congress lacked clarity in its approach to the second-generation reforms.

The dilemma of the Congress can be seen in the context that it wants to project before the people that it did not want to become a B-team for the BJP government in the oITlatters of economic policy and was not prepared to give all credit to the BJP in the reform process. The view of both the advocates of pro-liberalisation like Manmohan Singh and Jairam Ramesh and the protagonists of the left-of-centre like Vayalar Ravi and Pranab Mukherjee often contradict each other and thereby plunged the party into an ideological dilemma. But it can be seen that the difference of opinion emanating from various leaders were due to political compulsion rather than conviction. The nature of criticism against reforms depends on the political base of the leaders. The states where the opposition against reforms was strong, the leaders from those states usually became more critical of the reform process. For example, the anti liberalisation stand of the communists in Kerala and West Bengal reflected in that of the Congress leaders from these states like Vayalar Ravi, Pranab Mukherji and P.R. Dasmunshi to harp on pro-poor approach. It is clear that the political existence of these leaders forced them to take different voices on reforms within the party. This politics played a vital role in the approaches of both BJP and the Congress in the disinvestment policy rather than economic rationality.

3.3 Post Sale related Articles

In all cases of strategic sale, (except hotel properties of ITDC and HCI), Government/BBUNL (in the case of UMC and JCL being the holding company) retained a part of the equity with it, though management control was transferred to the strategic partner. The percentage of shares sold in the first instance to the SP varied from case to case. Except for the SHAs of HTL and UMC, other SHAs, provided for the manner of sale for the residual equity. In some cases a 'Put' option was made available to the Government under which it was compulsory for the SP to buy the shares being offered by the Government. In some cases a 'Call' option was made available to the SP. In some other cases, both 'Put' and 'Call' options were made available. In all the cases of both 'Put' and 'Call' options, the period in which or the date from which the option could be exercised was pre-defined. The principles for determining the price at which the options were to be exercised was also predefined in the SHA. The procedure of exercising the option was also provided in the SHA.

The Government retained at least 26 per cent shareholding of the divested CPSE with it for a certain length of time. These were sold through strategic sale, specifying the percentage of shares associated with the option, the time period as well as the basis of pricing.

A CPSE -wise summary of how 'Put' / 'Call' options were exercised in the past is given below.

MFIL, an unlisted CPSE was privatised in January, 2000 through a sale of 74 per cent of the paid up equity. 26 per cent of the equity was left with the Government. The SHA provided for a 'Put' option to the Government to sell the residual shares to the SP from January, 2001 at higher of the Fair Market Value or the price at which shares were sold in the strategic sale.

The 'Put' option was followed by a 'Call' option to SP. The 'Put' option was exercised by the Government on 28th November, 2002. The Government's residual equity was sold at the strategic sale price, i.e. Rs.ll,489.56 per share, whose Face Value was Rs.1,000 realising an amount of Rs,44.07 crore.

BALCO is an unlisted CPSE in which 51 per cent of the equity was sold by the Government in March, 2001. A 'Call' option for the residual 49 per cent shares -exercisable from 3rd March, 2004 at the higher of the Fair Value or the strategic sale price plus 14 per cent annual interest compounded half yearly after giving credit for dividend received by the Government, was available to SP. "In the context of the Call"- option exercised by SP on 22nd March, 2004, the Attorney General for India (AG), in his opinion dated 27th April, 2006, advised that the 'Call' option provisions in the SHA place restriction on the right of the GO! to transfer its shares freely and such a restriction would be void and unenforceable. A final decision on sale of the 'Called Shares' is yet to be taken as AG has opined against the validity of the Call Option provisions and the matter is under dispute.

CMC was a listed CPSE, when Government disinvested 51 per cent of the paid up equity through strategic sale in October, 2001, leaving a residual equity of 32.31 per cent with the Government, which got reduced to 26.25 per cent after sale of shares to employees? The SHA provided for a 'Put' option for the Government effective from 16th October, 2002 to 15th October, 2003 not exceeding 10 per cent of the paid up equity out of the residual shares and from 16th October, 2003 to 15th October, 2004 for some or all of the remaining shares at Fair Value as defined in the SHA. The 'Call' option was provided to the SP from 16th October, 2004 to 15th October, 2006 at higher of the Fair Value or the Market Value of the called shares. In February, 2004 the entire residual shareholding of 26.25 per cent was sold through an Offer for Sale to the public after getting the concurrence of the SP under the 'Right of First Refusal' clause of the SHA. The Government realised an amount of Rs.190,44 crore from this transaction.

VSNL was a listed CPSE when the Government disinvested 25 per cent of the paid up equity capital through strategic sale in February, 2002, leaving a residual shareholding of 27.97 per cent. Out of the residual shareholding, 1.85 per cent shareholding was sold to the employees. As per the SHA, the SP could exercise a 'Call' option for the entire residual shareholding of the Government, except one share, during the period from 13th February, 2006 to 12th February, 2007 at Fair Value of the called shares, to be determined as per SHA. However, the SP did not exercise the 'Call' option and the period of one year, during which the SP could have exercised the call option, expired on 12th February, 2007.

IBP: The Government disinvested 33.58 per cent of the paid up equity in February, 2002 in this listed CPSE leaving a residual shareholding of 26 per cent. The SHA provided for a 'Put' option to the Government from 8th February, 2003 to 1h February, 2005 at Fair Value "and a 'Call' option to the SP from 8th February, 2005 to 11th February, 2007 at Fair Value. However, Government sold its entire residual shareholding through an Offer for Sale to the public in February, 2004.

PPL: The Government sold 74 percent of the paid up equity capital in February, 2002 through strategic sale in this unlisted CPSE leaving a residual shareholding of 26 per cent. The shareholding of the Government in PPL came down to 19.55 per cent, consequent to a Rights Issue by the company, which was not subscribed to by the Government. The SHA provides for a 'Put' option right to the Government for some or all of the residual shares held by the Government at the time it exercises the put option at the fair value of the put shares. It further provides for a Call Option right to the SP from 1st March, 2005, requiring Government to sell to the SP all but not less than all of the equity shares held by the Government on date of issue of the Call Option Notice at a price which is higher of the fair value of the called shares or, if the company is listed, the highest price of the equity shares (during the period 15-days prior to the date of the call option notice) as quoted in the Stock Exchange or the price at which the shares were sold to SP at the time of strategic sale. In view of the opinion of AG referred to in Para 4.3.2 the Government has decided to repudiate the Call Option if and when exercised.

HZL: The Government sold 26 per cent of the paid up equity capital of the company through a strategic sale in April, 2002, retaining a shareholding of 49.92 per cent in this listed CPSE. Out of the residual shareholding, 1.465 per cent shareholding was sold to the employees. The SHA provided for the first 'Call' option to the SP from 11th October, 2002 to 10th October, 2003 for 18.92 per cent of the equity at higher of the Market Value of the shares or strategic sale price. This option was exercised by the SP in August, 2003 against which Government realised Rs.323.88 crore at the strategic sale price. A 'Put' option was available to the Government from 11th October, 2004 to 10th April, 2005 at higher of the Market Value of the shares or the strategic "sale price for the shareholding in excess of 26 per cent. The Government decided not to exercise

the 'Put' option. The residual shareholding of the Government is now 29.535 per cent for which a 'Call' option is available to the SP from 11th April, 2007 at the Fair MarketValue. In view of the opinion of AG referred to in Para 4.3.2 the Government has decided to repudiate the Call Option if and when exercised.

IPCL: The Government sold 26 per cent of the equity in this listed CPSE through strategic sale in June, 2002 leaving a residual shareholding of 33.95 per cent for which the SHA provided a 'Put' option to the Government from 4th June, 2004 to 3rd June, 2005 and a 'Call' option to the SP from 4th June, 2005 to 3rd June, 2006 both at Fair Value. However, in February, 2004 the Government, after obtaining concurrence of the SP under the 'Right of First Refusal' clause of the SHA, sold 28.95 per cent through an Offer for Sale to the public realising Rs.1203 crore and the residual holding of 5 per cent was offered to the employees of IPCL at discounted price, out of which 4.58 per cent shares were actually allotted. The existing shareholding of the Government in IPCL is 0.42 per cent.

JCL: At the time of strategic sale, BBUNL, a CPSE held 99 per cent of the paid up equity capital of JCL, a listed company. BBUNL sold 72 per cent of the paid up equity through the strategic sale to Indo-Wagon Engineering Limited (IWEL), leaving a residual shareholding of 27 per cent. The SHA provided for a 'Put' option to BBUNL from 29th August, 2004 to 28th August, 2006 and a 'Call' option to the SP from 29th August, 2006 to 28th August, 2008 both at Fair Value, to be determined as per the SHA. The shareholding in JCL got further reduced from 27 per cent to 4.16 per cent, consequent to a Rights Issue made by JCL in 2005 which was not subscribed by BBUNL. IWEL exercised the 'Call' option on 4th September, 2006. In view of the opinion of AG referred to in Para 4.3.2, the Government has decided to repudiate the Call Option already exercised by SP.

MUL was an unlisted Company when the Government renounced a Rights Issue of 4.21 per cent of the paid up equity in June, 2002, in favour of SMC, thereby reducing its shareholding to 45.79 per cent. SMC paid Rs.1000 crore as control premium to the Government for renouncing the Rights Offer. The RJVA provided for a 'Put' option from 8th November, 2003 to 8th July, 2005 at a price to be determined through a pre-defined

formula. The Government, however, sold 27.51 per cent out of its shareholding through an IPO in July, 2003 realizing Rs.993.30 crore. Out of the residual shareholding of 18.28 per cent, the Government sold 8 per cent equity of MUL to public sector financial institutions and public sector banks in January, 2006 for Rs.l,567.60 crore and 0.01 per cent equity to the employees of MUL for Rs.2.08 crore in March, 2006. In May, 2007, the Government sold its residual 10.27 per cent shareholding in MUL for the consideration of Rs.2, 366.94 crore to public sector financial institutions, public sector banks and Indian mutual funds.

Sale of Shares to Employees.

Five SHAs relating to strategic sale provided for *offer* of shares to employees. These are discussed as under.

BALCO: The SHA provided for an *offer* of up to 5 per cent equity of the company out of the residual shareholding of Government to the employees. In case of **CMC** SHA provided for an *offer* of not more than 6.31 per cent of the equity of the company out of the residual shareholding of Government to the employees. The strategic sale was completed in October, 2001 and the offer of shares to the employees was completed in June/July, 2002 at a price of Rs.66 per share i.e. at one-third of the strategic sale price of Rs.197 approximately. All regular employees of the company including full time functional Directors of the company, on the specified date, were eligible to acquire shares under this scheme. 3,208 employees availed of this offer, realizing Rs.6.07 crore for the Government by subscribing to 6.06 per cent of the equity. The *offer* involved a sacrifice of around Rs.12.04 crore for the Government vis-à-vis the strategic sale price and an average benefit of Rs.0.38 lakh per employee. The shares were nontransferable/non-tradable for one year from the date of issue.

For **VSNL,** the SHA provided for an offer up to 2 per cent shares of the company out of the Government's residual shareholding to. the employees. -The company ceased to be a Government company in February, 2002 and the offer to the employees was made in the same month at one-third of the price *offered* by the strategic partner or 1/3rd of listed market value calculated as the average of the closing price on BSE for 30 days, whichever was less, subject to a minimum of par value of Rs.l0 per equity share. 52,64,555 shares representing 1.85 per cent equity of the company were subscribed by the employees. The

shares were offered at Rs.47.85 per share against the strategic sale price of Rs.202 per share, involving a sacrifice of Rs.81.15 crore by the Government and an average benefit of Rs.2,71,304.00 per employee. The shares were made nontransferable/tradable for one year.

The SHA provided for an offer of upto 5 per cent equity of the company to the employees out of the residual shareholding of the Government. It was decided to *offer* the shares at one-third of the Listed Market Value or one third of strategic sale price whichever was lower subject to a minimum of the face value. Accordingly, in November, 2002 the shares were offered at the face value of Rs.l0 per share against a prevailing Listed Market Value of Rs.22.52 per share and strategic sale price of Rs.40.50 per share. 61.90 lakh shares or 1.465 per cent of the equity was subscribed by the employees. This transaction involved a sacrifice of Rs.18.88 crore by the Government and an average benefit of Rs.0.66 lakh per employee visa-vis the strategic sale price. The shares were non transferable/non-tradable for one year.

For **IPCL:** The SHA provided for an *offer* up to 5 per cent equity of the company out of Government residual shareholding to the employees. The strategic sale was completed in June, 2002. Thereafter, the *offer* of shares to the employees was made in April, 2004 at one-third of the price at which the shares were sold in February, 2004 through an *Offer* for Sale i.e. Rs.170.

Accordingly, 5 per cent shares were offered to employees, out of which 4.58 per cent shares were actually allotted at Rs.57 per share. This involved a sacrifice of Rs.197.85 crore for the Government vis a vis the strategic sale price of Rs.231. An average benefit of Rs.1.61 lakh accrued to each employee. The shares were non-transferable/non-tradable for three year.

While the terms and conditions of sale of shares to employees varied, there are some common features. A matrix of distribution of shares among employees was adopted. Secondly, the ratio of distribution from the lowest to the highest level ranged between 1:2.75 and 1:5. Thirdly, the regular employees including the functional Directors of the Board at the time of disinvestment were eligible for subscribing to the shares. Fourthly, in all the schemes, the shares were offered at a discount to the prevailing price.

3.4 Post Closing Adjustments

In the case of unlisted companies and the hotel properties of HCI and ITDC, the Share Purchase Agreement/Agreement to Sell provided for a Post Closing Adjustment to cover the change in the financial status of the company between the date upto which the audited accounts were provided to the parties at the time of due diligence and the date of actual disinvestment. The difference in the Net Assets on the date of the last audited balance sheet and the closing date was called post closing adjustment and depending on whether there was an accretion or depletion of the Net Assets, this amount become payable to the Government.

The details of cases where Post Closing Adjustments were provided for in the Share Purchase Agreement/relevant transaction agreement and the status of each case as given below:

MFIL: MFIL was disinvested through sale of 74 per cent Government's equity to HLL for an amount of Rs.105045 crore. Financial bids were invited/received on the basis of audited accounts of MFIL as on 31st March, 1999. The transaction agreements were executed on 31st January, 2000. The appointed accounting firm had submitted a statement on 26th April, 2000 which required the Government to pay Rs.17.48 crore to the SP but the Government accepted a claim amounting to Rs.12.64 crore and released payment of Rs.10.94 crore in October, 2000 and Rs.1.70 crore in November, 2001. HLL, the purchaser still claims Rso4043 crore under post closing adjustment on account of gratuity and recovery from U.P.

BALCO: 51 per cent equity of SALCO was disinvested in favour of SIIL on 2nd March, 2001 for an amount of Rs.551. 50 crore. The SHA and SPA were signed on 2nd March, 2001 and the SP took over the management control. The SPA provided that within 90 days following the Closing Date, the Government and the Purchaser shall jointly select an accounting firm to prepare a statement showing the Closing Date Net Assets Amount. If the Closing Date Net Assets Amount were higher than the Adjusted Net Assets Amount on 31st March, 2000 (Rs.590.95 crore), the Purchaser shall pay 51 per cent of the difference to the Government and if the Closing Date Net Assets Amount was lower than the Adjusted Net Assets Amount, the Government shall pay

51 per cent of the difference to the Purchaser. In terms of the SPA, the Government and the SP jointly appointed Price Waterhouse to compute the Closing Date Net Assets Amount. Price Waterhouse initially computed the Net Assets of SALCO as on 2nd March, 2001 at Rs. 478.08 crore which was subsequently increased to Rs.558.17 crore as against the Adjusted Net Assets of Rs.590.95 crore as on 31st March, 2000. The matter is under examination in the Ministry of Mines.

PPL: Financial bids for the disinvestment of 74 per cent of the equity in PPL were invited on the basis of audited accounts of the company as on 31st March, 2001. Only one financial bid of Zuari Maroc Phosphate Pvt. Limited (ZMPPL) was received. The transaction agreements for strategic sale were executed on 28th February, 2002. As per the joint audit, on thel post closing claim, initially conducted by Price Waterhouse, Kolkota, the total deterioration in the net assets of PPL between 31st March, 2001 and 28th February, 2002 was at Rs.204.80 crore (approx.) out of which Rs.1S1.SS crore was due to ZMPPL. No agreement could be reached between ZMPPL and the Government on the amount of the post-closing claim. Thereafter, the Government appointed Patro & Co. who arrived at a post-closing claim of Rs.108.8 crore. In view of the discrepancies in the reports of the two auditors mentioned above, KPMG Private Limited was jointly engaged for conducting a full audit. In the report of KPMG, the amount payable to ZMPPL was computed to be Rs.141.32 crore. While this case was under examination of the Department of Fertilizer, ZMPPL initiated arbitration proceedings under the SPA.

HTL: 74 per cent equity of HTL was disinvested through Strategic Sale to HFCL on 16th October, 2001. The Post Closing adjustment claim filed by the strategic partner in terms of the provisions of SPA was not acceptable to the Department of Telecommunications.

HCI: HCI is a subsidiary of Air India Limited. Transactions relating to two hotel businesses of HCI, viz., Hotel Centaur Juhu Beach Mumbai and Centaur Hotel Mumbai Airport, Mumbai and a subsidiary. hotel of. HCI, vjz., Indo Hokke Hotels Limited, Rajgir were based upon the audited accounts of 31st March, 2001. The transfer dates of these 3 hotels were: rndo Hokke Hotels Limited, Rajgir - 26th March, 2002, Hotel Centaur Juhu Beach, Mumbai, May 2002 and Centaur Hotel Mumbai Airport, Mumbai - 5th June, 2002.

Post closing adjustment in terms of the provisions of SPA was completed in respect of Indo Hokke Hotels Limited, Rajgir. HCI paid an amount of Rs.4.33 lakh to the purchaser in settlement of the claim.

In the case of Centaur Hotel Mumbai Airport, Mumbai, the purchaser raised a claim of Rs.23S.67 lakh, whereas HCI raised a claim of Rs.497. 71 lakh to be recovered from the purchaser. Since both the parties have disputed the claims of each other, the matter has been referred to arbitration.

In the case of Hotel Centaur Juhu Beach, Mumbai, the post closing adjustments in respect of (i) additional provision towards doubtful debts, (ii) additional provision towards leave encashment and gratuity and (iii) insurance claim and advances paid to suppliers have not been concluded. The parties have mutually agreed to refer the matter to Ministry of Civil Aviation (MoCA) for the award. MoCA informed that Additional Secretary and Financial Adviser, MoCA was appointed as the Arbitrator. The purchaser did not agree to this. HCI after taking legal opinion from their solicitors issued legal notice to the purchaser in October, 2005. The Board of HCI decided in March, 2006 to go ahead with arbitration proceedings. In June, 2006, HCI requested Arbitrator to proceed further in the matter.

3.5 Research Gap:

A perusal of work done by the learned scholars shows that much has been researched on contribution of public sectors, pros and cons of having them in the economy or not. The social aspect of their existence too has been elaborated. But the effect of disinvestment on sectors has not been quantitatively measured like in which direction their stocked moved. What was the impact on their Price Earning Ratio and for that matter on many financial parameters which are considered as nerves of any organization? Hence the researcher thought it fit to study this rather less explored area and efforts have been made in this direction.

3.6 Summary:

The articles reviewed by the researcher so far more or less confirm that no study has been conducted to find out the effect of disinvestment from financial angle especially with reference to improvement in ratio as a measure of financial analysis. Hence the researcher could find a research gap which has been tried to be filled in through this research. How has the researcher tried to fill in this gap, has been done has been discussed in the subsequent chapter on research methodology.

Chapter - 4

Research Methodology

Chapter - 4

Research Methodology

From the academic point of view, outcome of any research is not as important as the approach followed by researcher in conducting the research. If the problem has been approached in an approved method, the chances are very high that the outcome shall not be biased. The researcher has made sincere efforts to ensure that the approved research methodology is followed.

4.1: Introduction

Research Methodology plays an important role in setting the tone for conducting the research. This important chapter was conceived after careful thoughts and detailed discussion with supervisor. The chapter first provides basics of research methodology, need for research, objectives, hypotheses, instruments used, sources of data, sampling used and procedures followed, methods of analysis and finally presenting the findings. This is followed by the specific method used in the present research. As far as possible, detailed justification has been provided for using a particular method of conducting research.

4.2 Objectives of the study

As concluded in the survey of literature that these exists a gap in the researches carried out by various learned scholars. Majority of them have heavily relied on the theatrical construct and financial information of the firms has rarely been sued to measure the effect of disinvestment. Adequate efforts have not been made to find out what happened in the market prior to the announcement of disinvestment and after the announcement.

Hence following objectives have been outlined for this research.

(i) To study and measure the profitability of PSUs after and before disinvestment using ratio as a measure in analysis in general and ratio analysis of specific sectors

(ii) To study the return on total assets pre and post disinvestment

(iii) To study the return on Capital Employed of PSUs

(iv) To study the return on shareholder's equity of PSUs

(v) To study the Return on Investment (ROI) of PSUs in pre and post disinvestment scenario

(vi) To test the hypothesis in respect of above and conclude

Justification:

The problems and prospects of disinvestment in PSUs can be studied from many angles. One can conclude based on the related researches conducted in the area and the critical analysis of experts reported in various journals, news papers and government reports. However, relying on the published figures in the form of audited financial statements and drawing conclusion from theses figures in the form of accepted financial analysis methods have been considered as objective basis of arriving at conclusion. Hence the present research in general aims at making profitability analysis of selected Indian Public Sector Enterprises - before and after disinvestment. It takes into account the 'impact of economic reforms measures introduced by the Government of India and aims at examining the operational efficiency and profitability of selected Indian Public Sector and to explain the trends in profitability of the select Indian Public Sector in pre and pot disinvestment scenario.

The study covers 6 enterprises among the total 13 enterprises viz. Steel, Minerals and Metals, Coal and Lignite, Power, Petroleum and Chemicals and Pharmaceuticals. These six enterprises augment more than 505 of the total investment made by the Central Government in the public sector. For the purpose of the study necessary data on profitability and other related variables were collected for the period 1991-2007. The financial statements used are mainly the profit and loss account and balance sheets published by the Bureau of Public Enterprises (BPE), Ministry of Finance, Government of India, New Delhi. The study used a variety of financial ratios to accomplish the objectives. It employed various statistical tools such as mean, co-efficient of variation, range, correlation, the study also used linear regression analysis to analyse the relationship between size and profitability, multiple regression analysis to determine the factors which influence the profitability and chi-square test and ANOV A has been used to study the trend of profitability.

Research Plan: Sources of Data

Data has been collected from one sources and that is secondary. The main theoretical source has been the RBI annual reports, FEMA / FERA Acts, RBI Bulletins, Disinvestment Manuals, Annual Reports of Companies, CMIE publications, Economic Survey, Budget, News letters of Banks, Occasional papers from RBI economic department, Research papers published in various magazines, Trade Journals, News papers clippings, Text Books on International Financial Management the government reports. Main source for financial information has been the annual reports of the sectors studied.

Database: Information was collected from the PROWESS database for financial ratios and also from **"Database of BS1000, India's Corporate Giants"** published by Business Standard in December 2007. It is the research study of top 1000 companies of India by the Business Standard magazine. Quota sampling is used for selection of sample size. The population is first segmented into mutually exclusive sub-groups and then the following industries were chosen.

(i) Textiles,
(ii) Engineering,
(iii) Pharmaceuticals
(iv) Diversified
(v) Chemicals
(vi) Consumer durables
(vii) Automobiles
(viii) Cement
(ix) Steel
(x) Information technology

Then, judgement is used to select the top 10 units/companies from each segment based on the assumption that top companies would be engaged in active management of foreign exchange exposure and expected to get proper responses to the questionnaire. It is this second step, which makes the technique one of *non-probability sampling. The a*dvantages of quota sampling are the speed with which information can be collected, the lower cost of doing so and the convenience it represents. (Business Standard, December 2007)

4.4 Hypotheses tested:

Based on the literature surveyed, following are hypotheses and they are tested using appropriate tools. All hypotheses have been given as null hypothesis and alternate ones have not been stated.

Ho_1: Post disinvestment PSUs have not made desired progress

Ho_2: Post disinvestment return on profitability of PSUs has not improved

Ho_3: Post disinvestment return on capital employed of PSUs has not improved

Ho_4: Post disinvestment return on equity of PSUs has not improved

Ho_5: Post disinvestment return on investment of PSUs has not improved

4.5 Method of Analysis

Once the financial statements have been collected, important ratios were calculated taking pre and post disinvestment scenario. The important ratios have further been analysed for specific sectors. Based on the calculation of ratios and the result thereof, the hypothesis have been tested and presented.

Time Span, Scope and Contribution of this Research

The time span for the research study is between late 1991 and early 2009 and this commensurate with the introduction of financial sector reforms. However, the base year for most of the data would be 1992-93 as the effect of liberalizations had started trickling down from that year.

This research study is **expected to contribute** for understanding the genesis of PSUs in India, background of disinvestment and specially the pre-and post performance of the PSUs which will either accept or reject the hypothesis that disinvestment has been successful or otherwise.

Data analysis:

Having calculated the ratios of select PSU in the pre and post disinvestment scenario, statistical tests were applied to ascertain if the findings truly reflect the changes or these are by chance only. The relevant tests in this regards are F Ratios and their significance has

been tested at 95% level of confidence. First the effect has been measured then tested sector-wise. In most the cases the results have been tested on monthly basis too.

Data presentation:

After the analysis data has been presented in two forms. For ratio analysis, running commentary has been provided giving calculations and their interpretations. Efforts have been made to make the discussion as elaborate as possible. The calculation is followed by possible justification of the changes in the performance pre and post disinvestment. Efforts have also been made to find out the changes in private sector belonging to the same product category as to how their stocked moved as and when there sere some announcements. This necessitated monthly calculation and testing.

Having discussed the effect in the above form, calculations have been tabulated and presented in various tables. The significance level of various F ratios has been shown and null hypothesis if accepted has been explained. In case alternate hypothesis has been accepted, it has not been mentioned.

Chapter - 5

Analysis of Problems and Prospects of Disinvestment

Chapter - 5

Analysis of Problems and Prospects of Disinvestment

Introduction

Having discussed the methodology followed in conducting the present research; in this chapter efforts have been made to provide major issue resulting from the decision of policy makers to disinvest from PSUs. Legal issues, employees related issues and other miscellaneous issues have been discussed followed by the effect of disinvestment in subsequent chapters.

5.1 Major General Issues

The toll of the public sector disinvestment is becoming forbidding. The decision to sell the equity of the Gas Authority of India, a company in the public sector listed as a Navratna, to foreign business interest at a heavily discounted price of Rs 70 as against the market value of more than Rs 300 per share was remarkable. This has been followed up by the sale under a privately negotiated deal of it PSU to Hindustan Lever, subsidiary of a Transnational corporation already operating in India and the move to hand over the management control of Indian Airlines to private business interest with the only 26 per cent stake in its equity.

The disinvestment of the government equity in commercial and industrial undertakings has been underway as a part of what is called the "structural adjustment" of the Indian economy which was initiated in 1991 under the policy guidance of the IMF/World Bank combine. It was designed for the step-by-step transfer to transnational corporations (TNCs) the majority holding of the equity and management control of the country's public sector undertakings (PSUs) which were set up and developed after India gained political independence and embarked on a path of socio-economic development on a self reliant basis. The objective of the disinvestment of the PSUs is to bring the Indian economy, especially its industrial sector, under the domination of TNCs.

The PSU disinvestment programme, to begin with, merely attempted to raise revenue for the government as a part of a soft option to contain its fiscal deficit from becoming unmanageable Jha, A. (2003). The stock market in India has not been an effective

instrument to raise investment resources for private business enterprise let alone public sector investment. There are few takers in the Indian private corporate sector who are in a position to take advantage of PSU disinvestment. They are neither willing nor able to take over the management even profitable PSUs. They do not have the funds, technological tools or management skills for running the giant industrial and commercial undertakings in the public sector.

The move to sell government equity in PSUs (Nanjundapa 2002) to shore up the revenue position of the government has not achieved the desired results either. But it has held up public investment for the development of the economic and social infrastructure in India. The sharp cut in government funding as well as the failure to generate internal savings in the existing PSUs 'has. blocked their expansion and modernisation.

The ability of the PSUs to face (Nanjundapa 1998) up to the hostile competition posed by the TNCs has thus been crippled. The position of not only PSUs but of even the private Indian domestic corporations has also been gravely weakened. This has helped the TNCs to maximise the profitability of their operations in India and take over the PSUs cheaply. The sale of the equity of the Gas Authority of India and the sale of the Modem Foods company in the public sector by the Hindustan Lever a subsidiary of Lever Brothers, a TNC and the privatisation of the management of Indian Airlines emphasizes this position very well.

Disinvestment schemes devised from time to time to raise substantial revenues for the government by selling the equity of PSUs has obviously lost its charm for the self-styled economic reformers in the government of India, according to Najudappa (1998) The idea of the creation of a "special purpose vehicle" for the holding of the government equity in PSUs, before their sale at a reasonable price as well as arrangements for buy back and cross holdings by PSUs which was toyed with for sometime, has also been dropped. The official policy has now been geared' for the outright sale of PSUs to the TNCs. The talk of the, "drain on the fiscal resources" of the government because of the setting up of the PSUs is, of course, a myth which has been assiduously spread to pave the way for the privatisation-globalisation process to make unhindered headway. There really are not any valid economic or social welfare reasons in official policy making but ideological preference for

privatisation of the economy which the ruling elite in India has now accepted and is vigorously pursuing.

Public investment to build industrial and commercial undertakings was inspired by the imperative need to serve social and economic priorities and overcome the impediments left behind by colonial rule in the way of the growth of the Indian economy and mass welfare (Pandey 2001). The "multiple objectives" of the PSUs, which are so vociferously derided by the votaries of the privatisation, globalisation process, are all about import-substitution in critical areas of the economy, optimal utilisation of domestic resources, material and human, opening up of economically backward areas, development of indigenous capabilities in construction of large projects and technological skills, especially in respect of infrastructure for economic growth and social advance on a broad front. This visibly helped the growth of productive enterprise both in the public as well as private sector in the two decades after India had won political freedom. The effort made in these directions is now; being emasculated. The public sector industries and services are being systematically demolished.

The question of strengthening the management autonomy and efficiency of PSUs, for long a matter of concern, has lost all relevance in government policy. It is facile and deceptive to talk of it being preferable to close down the large public sector undertakings employing more than four lakh workers and save the Rs 15,000 crore which may be required for their rehabilitation for new 'investment to create as many as 15 lakh new jobs. Whatever revenue is raised by the sale of the assets of PSUs or whatever losses are avoided by closures so far has not been used for meaningful investment on the basis of a well-conceived order of priorities Nayyar, B.R. (1992). Deceptive, too, is the talk of creating and enlarging opportunities for gainful employment by scaling down public investment and finding resources for the development of the social infrastructure, priority in the design of development. What has been happening really, is the transformation of the role of the Indian state from an agency of development and equity into an instrument of law and order so that the private business interests, Indian and foreign thrive and those who sell their labour do so meekly N ayyar, B.R. (2001). Considering the debilitated conditions and nature of 'private Indian business enterprise, it is the foreign TNCs, if and when and to the .extent they come to India, which are making the maximum gains.

There is, of course, a strong and sound case for adequate returns from investment in public enterprises and generating surpluses for reinvestment to accelerate the development process. There is also no manner of doubt that returns from investment in industrial and commercial enterprises so far have not been adequate. But this no alibi to absolve the political authority in India of the responsibility to provide adequate budgetary support for planned development. Even sensible Indian private business interests want are indeed clamoring for step up of public investment for the development of economic infrastructure for them to function efficiently and face foreign competition in the domestic market.

It is a simplistic view of the role of public enterprise in economic development and the principles that should govern the measurement of its efficiency that the yardstick of commercial profitability alone should be considered. The fact must be reckoned with that while public enterprise should operate in such a way as to augment public savings, they have also to put up with planned losses in order to provide essential goods and services to the mass of the people which the private enterprises, guided by only the profit maximization motive, will not do. Pathak (2001) suggests that the PSUs indeed provide relatively cheap inputs to the private sector and thus help the generation of surpluses in the economy. The point is that PSUs may not directly generate financial surpluses. But those who make large profits by using subsidized inputs provided by the PSUs to them should be required to contribute a fair part of these profits by way of taxes and other savings instruments to augment resources for stepping up overall investment for economic growth according to right order of social priorities. It is indeed wrong mindlessly to flog the PSUs. The easy path of raising the prices of goods and services provided by the PSUs in order to extract surpluses for investment -may tend in many cases to be counterproductive and self-defeating. Returns from PSUs can be enlarged meaningfully only by improvements in the efficiency of their operations and fuller utilisation of their capacity which should not be blocked by imports that are competitive to indigenous production capacities, both in the public and private sectors.

Disinvestment Blues

Mr. George Fernandes, the honorable Union Minister for Defense and the convener of the ruling coalition, has thrown a spanner in the way of Mr. Arun Shourie riding the high horse

in the disinvestments ministry. Disinvestment blues to emerge in the mid-term for the NDA government is very disconcerting for the so-called economic reformers inside and outside the government.

The frantic search by Mr. Arun Shourie for "strategic partners" with the help "global advisors" to hand over the management control of the PSUs to big Indian and multinational corporations was bound to create problems. This was conceived as the first step for eventual transfer of ownership of PSUs to private hands with moderate investment and takeover their huge assets and market value. This suits the corporates far more than disinvestment of government equity in drip lets at competitive market prices.

The strengthening of the management and operating efficiency of PSUs too is then loses its appeal, even relevance, for official policy on disinvestments of PSUs which are driven into sickness for want of investment for renovation to become attractive pickings for selected Indian and foreign corporations on payment of negotiated prices in installments. The original idea of disinvestments to raise revenues for the government for spending on alternative priority areas, such as education, health, roads and irrigation has also been shelved. After the winding up of the Disinvestment Commission, which tended to give some importance to enhancing the market value of PSUs before their privatisation and collect larger revenue for the exchequer, the disinvestments policy has now indeed developed novel features and wider dimensions.

The entire scheme of disinvestment privatisation as has been implemented by Mr. Shourie is inspired by ideological preferences and not cost or efficiency criteria. There was, therefore, I bound to be stronger political-ideological opposition to the disinvestment policy of the NDA government sooner than later. The working people and their trade union have opposed PSU divestment sharply and unreservedly. So have the left parties. But Congress Party, which initiated the disinvestment process, too has now developed reservations on the disinvestment in the case of profit-making PSUs. Some of the partners of ruling coalition and elements close to the BJP have misgivings about the working of the department of disinvestment. There too are allegations of corruption in disinvestment deals with foreign and Indian big business interests.

The case for public investment in general and development of large industrial. commercial and financial infrastructure in the public sector in particular for economic growth process is however sound. Its fundamental basis is of social equity and sustainability at the present level and stage of India's social, economic and political development. The returns from public investment in some industrial and commercial undertakings may not have been so far adequate. But this can be no alibi for absolving the Indian State to divest itself of the responsibility to mobilise necessary resources, material, human and financial, for economic growth on the basis of the right-order of economic and social priorities. Even sensible Indian private business interests clamor from time to time for a step up of public investment in PSUs for providing a reliable infrastructure to enable them to function and face foreign competition in the domestic and global markets Pathak, R. (2002).

The talk of loss-making and profit-yielding PSUs is gibberish. It is a simplistic, indeed misleading and mischievous view to measure the efficiency of PSUs in the narrow term of commercial profitability. The fact that must be reckoned with is that while PSUs should operate in such a way as to augment public savings. Many well managed PSUs do make profits. But they are also required to put up with planned losses in the larger public interest economic as well political.

In order to provide essential goods and services to the mass of the people, for instance. PSUs are often called upon to suffer losses' which private business is unable and unwilling to accept. The support and protection of the State too is necessary for the development of private industry, after India gained political independence from colonial rule. PSUs arid public financial institutions have provided this support and protection to the private business enterprise in India to develop. The PSUs have provided essential inputs on a large-scale at low the cost of production to private industry.

It is indeed not fortuitous that PSUs and private corporates as well as small-scale industry grew in tandem during the era of planned economic development. This laid the foundation for strong and stable industrialisation. The disinvestment and prjvatisation of PSUs can only undermine this foundation. This has. in fact already resulted in serious set-back to machine-making and manufacturing industry as well as the research and development effort for industrial development on sound, steady and sustainable basis. What is happening

is that while public investment and management and technological enterprise is being strangulated, private big business is going away from productive enterprise into trading, in imported goods and services, speculation in stocks and shares and junior partnership with multinational corporations.

The claim Rajesh, J. (2002) of the economic reformers that once public investment, especially in industry is withdrawn and industrial development is left to private enterprise. the resource constraint on the government for investment in social sectors would be removed. This is a false claim. It was also argued by them that disinvestment would benefit the mass of the people and make privatisation and market driven growth of Indian industry acceptable and popular. This has not actually happened. The .disinvestment and privatisation drive has certainly and often wantonly allowed diversion of public funds to selected private business corporations to extract high profits from meager investment in takeover of PSUs. The privatisation of VSNL to the Tata House is a case in point. .

The funds raised by PSU Ramkirshnan. C, (1997) disinvestment have been absorbed into the general budgets mainly of the central and partly also of the state governments which have recycled these funds back to the private corporations through financial institutions and cut in tax demand on large incomes and wealth. No part of the revenue raised by PSU disinvestments or saved by the government by scaling down public investment in industrial growth has gone to the development of the social sector.

The privatisation, Rangarajan, C. (1997) side by side, of trade in public goods, among them electricity and drinking water as well as commercialization of education, health services public transport and communications has far-reaching implications, not only economic and social but also political. Essential goods and services under this policy dispensation are reserved for only those who can afford to pay for them. This has barred the access to these goods and services for the mass of the people without adequate incomes and purchasing power. It is not at all surprising or fortuitous, that rural electrification, rural telephony and even drinking water schemes have been being' given, low priority in the development of urban and rural infrastructure as compelling obligations of the public authority. But, generous concessions and special fiscal steps have been taken for the satisfaction of the

consumerist urges of the upper and middle classes, among them entertainment, leisure, travel and fashion.

The move to arrange the return to India of the Royal Dutch Shell, one of the notorious seven partners in the international oil cartel, which was expelled, along with two other international oil companies', from India three decades ago for not processing Indian crude oil in their refineries has now brought matters to head on for the contentious issue of the disinvestment of PSUs. Mr. Fernandes deserves compliments for bringing up for review not only the sale of two public sector refineries and their marketing networks but the entire disinvestment programme and the manner it is being implemented at a feverish, break-neck hurry by Mr. Arun Shourie.

Mid-term review of policies and performance for the incumbent political authority in a democratic set up is always ticklish and even painful. The minority congress government, which initiated in 1991 the privatization globalisation process in India, found itself vulnerable in the mid-term of its tenure. The then prime minister, the wily Mr. Narasimha Rao, simply halted the implementation of the market-friendly' economic reforms for the time being and went back to populist gestures in order to be able to improve the poor electoral prospects of his party. He failed to achieve the desired objective.

The option to halt the market-friendly policy and. return to popularism is, however too risky for Mr. A. B. Vajpayee to even contemplate. Mr. Vajpayee has gone too far in committing himself, in the domestic arena as well as globally, to the privatisation-globalisation policy. He can only try to stall to gain, time with small adjustments in the implementation of the policy, which are not likely to win for him popular acceptance.

The awareness of the implications and consequences of the so-called economic reforms has become widespread and strong in India. Economic reforms have indeed become the most contentious issue for political and electoral contention. This contention is likely to exercise dominant influence over party- political alignments and re-alignments before the general election and response of the electorate.

5.2 Employees Related Issues

Post Disinvestment employees issues in privatized CPSEs.

There are two primary employees' issues, which are voiced with respect to disinvestment. First there is a concern about change in the terms of services of employees and secondly there is a concern that the reservation policy of the Government for the Scheduled Castes/Scheduled Tribes and other categories would be diluted.

Terms and Conditions of Services

The concern of the employees regarding alteration in the terms and conditions of the services were sought to be addressed through provisions in the Shareholders Agreement/Share Purchase Agreement entered into with the Strategic Partner at the time of strategic sale. The typical provisions are given below:

Recitals:

Subject to the substantive clauses in this regard, to all employees of the Company on the date hereof will continue in the employment of the Company.

Substantive Clauses

The SP covenants with the Government that:

a) notwithstanding anything to the contrary in this Agreement, it shall not retrench any of the Employees of the Company for a period of 1 (one) year from the Closing Date other than any dismissal or termination of Employees of the Company from their employment in accordance with the applicable staff regulations and standing orders of the Company or applicable Laws.

b) notwithstanding anything to the contrary in this Agreement, but subject to Sub-Clause (a) above, any restructuring of the labour force of the Company shall be implemented in the manner recommended by the Board and in accordance with all applicable Laws;

c) notwithstanding anything to the contrary in this Agreement, but subject to Sub-Clause (a) above, in the event of any reduction of the strength of the

Company's Employees, the SP shall ensure that the Company offers its Employees an option to voluntarily retire on terms that are not, in any manner, less favourable than the VRS applicable before disinvestment.

Reservation Policy

In the strategic sale transactions, the interest of SC/ST employees were also sought to be protected through the provisions in the Shareholders' Agreement. A typical Recital clause provided in the SHA is reproduced below:

"The SP recognizes that the government in relation to its employment policies follows certain principles for the benefit of the members of the Scheduled Castes / Scheduled Tribes, physically handicapped persons and other socially disadvantaged categories of the society. The SP shall use its best efforts to cause the Company to provide adequate job opportunities or such persons. Furth.er, in the event of any reduction in the strength of the employees of the Company, the SP shall use its best efforts to ensure that the physically handicapped persons are retrenched at the end".

5.3 Disinvestment Related Legal Cases

Review of Legal Cases

Ninety-six disinvestment related lawsuits, including transfer petitions, have been filed between December, 1999, (when the Department of Disinvestment was established) and 30th June, 2007. Out of these, sixteen writ petitions were transferred to the Supreme Court from different High Courts. At the end of July, 2007, twenty four matters were pending before different High Courts and two matters before the Supreme Court, details of which are given below in table 5.1.

Table 5.1

Summary of Legal Cases

Sl. No.	Court	Total Number filed (including transfer cases	Disposed/ Dismissed	Transferred to Supreme court	Number Pending
1.	Supreme Court	15	13	NA	2*
2.	Karnataka High Court	5	4	1	Nil
3.	Delhi High Court	19	13	4	2
4.	Chattisgarh High Court	1	Nil	1	Nil
5.	Madras High Court	7	2	2	3
6.	Allahabad High Court	3	Nil	2	1
7.	Patna High Court	2	2	Nil	Nil
8.	J & K High Court	1	Nil	1	Nil
9.	Calcutta High Court	10	4	1	5
10.	Rajasthan High Court	6	3	1	2
11.	Kerala High Court	1	1	Nil	Nil
12.	Orissa High Court	5	2	Nil	3
13.	Bombay High Court	1	Nil	Nil	1
14.	Bombay High Court (Nagpur Bench)	1	Nil	Nil	1
15.	Bombay High Court (Aurangabad Bench)	1	Nil	Nil	1
16.	High Court of MP (Gwalior Bench)	1	1	Nil	Nil
17.	High Court of MP at Jabalpur	3	2	Nil	1
18.	Gujarat High Court	1	Nil	Nil	1
19.	Andhra Pradesh High Court	2	2	Nil	Nil
20.	Punjab & Haryana High Court	1	1	Nil	Nil
21.	Jharkhand High Court	1	NIL	1	Nil
	Total	**96**	**54**	**16**	**26**

*2 matters consisting of transferred cases (i) 5 writ petitions involving issues arising out of the Supreme Court judgment in HPCL/BPCL case and clubbed together and (ii) 1 writ petition relating to HZL transferred from Rajasthan High Court.

Source: www.disinvestment.gov.in/legal/html last visited on June 6th 2007

Out of the cases which were either disposed or dismissed by various courts, there are three important judgments of the Supreme Court. These are the judgments dated 10th December, 2001 in the BALCO matter, the judgment dated 16th September, 2003 in the Centre for Public Interest Litigation and Others vs. Union of India and Others in HPCL BPCL matter and the judgment dated 31st October, 2006 in the matter of All India ITDC Workers Union & Others viz. ITDC and Others.

The Supreme Court in its judgment dated 10th December, 2001 in the BALCO case (AIR 2002 SC 350) has observed as follows:

> "In a democracy, it is the prerogative of each elected Government to follow it's own policy. Often a change in Government may result in the shift in focus or change in economic policies. Any such change may result in adversely affecting some vested interests. Unless any illegality is committed in the execution of the policy or the same is contrary to law or mala fide, a decision bringing about change cannot per se be interfered with the Court.
>
> Wisdom and advisability of economic policies are ordinarily not amenable to judicial review unless it can be demonstrated that the policy is contrary to any statutory provision or the Constitution. In other words, it is not for the Courts to consider relative merits of different economic policies and consider whether a wiser or better one can be evolved. For testing the correctness of a policy, the appropriate forum is the Parliament and not the Courts. Here the policy was tested and the Motion defeated in the Lok Sabha on 1st March, 2001.
>
> Thus, apart from the fact that the policy of disinvestment cannot be questioned as such, the facts herein show that fair, just and equitable procedure has been followed in carrying out this disinvestment. The allegations of lack of transparency or that the decision was taken in a hurry or there has been an arbitrary exercise of power and without any basis.
>
> The offer of the highest bidder has been accepted. This was more than the reserve price which was arrived at by a method which is well recognized and, therefore, we have not examined the details in the matter or arriving at the valuation figure.

Moreover, valuation is question of fact and the Court will not interfere in matters of valuation unless the methodology adopted is arbitrary.

In the case of a policy decision on economic matters, the courts should be very circumspect in conducting any enquiry or investigation and must be most reluctant to impugn the judgment of the experts who may have arrived at a conclusion unless the Court is satisfied that there is illegality in the decision itself."

In the matter of Centre for Public Interest Litigation versus Union of India and Another challenging the disinvestment in regard to HPCL/ BPCL, the Supreme Court, through the judgment delivered on 16th September, 2003 (AIR 2003 SC 3277) upheld the challenge to the proposed Strategic Sale of HPCL and the proposed dilution in equity in the case of BPCL to below 51 per cent through an Offer for Sale of the Government's equity. The Supreme Court took the view that, since both these companies were established through Acts of Parliament under which the undertakings and assets of private companies were acquired and transferred to these Government Companies, it was not open for the Government to proceed with disinvestment that would result in HPCL and BPCL ceasing to be Government Companies without appropriately amending the statutes concerned. The Court also held that setting up of Government Companies is by way of Parliamentary approval for expenditure from the Consolidated Fund of India and hence privatisation of Government Companies can therefore be only with approval of Parliament. This Judgment laid down principles, which would apply to all cases of privatization of Government companies. Subsequentl y, several ongoing disinvestment proposals were challenged in various High Courts. On petitions filed by the Government under Article 139A of the Constitution, 6 writ petitions (in the cases of Burn Standard Company Limited, Shipping Corporation of India Limited, Hindustan Copper Limited, Hindustan Zinc Limited) pending in various High Courts were transferred to the Supreme Court. Further, four Writ Petitions were directly filed before the Supreme Court. All the transferred cases and the Writ Petitions directly filed before the Supreme Court were tagged with the Civil Appeal SLP (C) No. 12203/2003 (Civil Appeal No. 6780/2004) filed by Jessop & Co Limited Staff Association, in which the Government, through its Counter Affidavit dated 11th November, 2003, sought reconsideration of the ratios of the judgment dated 16th

September, 2003 in the Centre for Public Interest Litigation case (HPCL/BPCL). The Supreme Court on 11th October, 2004 passed orders (1) granting the Special Leave to Jessop & Co Limited Staff Association; (2) allowing the transfer petitions filed by the Union of India; and (3) admitting the Writ Petitions filed by EIL Officers' Association, NFL Officers' Association and Khetri Tamba Shramik Sangh. The Court also observed that, in view of the importance of the issues involved, a larger bench should hear these matters. Subsequently, the writ petitions filed by EIL Officers' Association, NFL Officers' Association were dismissed as withdrawn and the writ petition filed by Khetri Tamba Shramik Sangh was dismissed as premature. Jessop & Co. Staff Association filed an application in June, 2007 seeking permission for withdrawing the Civil Appeal No. 6780 of 2004. The Supreme Court has through orders dated 24th July, 2007 allowed the application and dismissed the appeal as withdrawn. Rest of the matters and the transferred cases are before the Supreme Court.

In the matter of All India ITDC Workers' Association Vs. ITDC & Others [Transfer Case (Civil) No. 73 of 2002 along with Transfer Case (Civil) No. 76 of 2002], the Supreme Court, through the judgment delivered on 31st October, 2006, upheld the disinvestment in Hotel Agra Ashok. The Supreme Court has, referring to and relying on the judgment dated 10th December, 2001 in BALCO matter, observed inter-alia that disinvestment was a policy decision of the Government of India and the said policy decision should be least interfered in judicial review.

5.4 Summary

The above discussion leads one to believe that the disinvestment posed some major challenges special with reference to employees as private sector never wanted a huge wage bill to be paid as it was sure to get the same work done with far lesser manpower partly due to efficiencies and partly by exploiting them. This resulted in large litigations. All these issue ultimately affected the bottom line that is the profitability which we have discussed in next chapter.

Chapter - 6

Critical Analysis of Problems and Prospects of Disinvestment of PSUs

Chapter - 6

Critical Analysis of Problems and Prospects of Disinvestment of PSUs

As explained in chapter four on research methodology and again in chapter five, this chapter shall focus on the explaining the effect of disinvestments in PSUs; taking financial data of the select sectors. All the accepted methods of measuring profitability of an entity shall be discussed. The discussion shall be based on the calculations made from the financial statements, in case of the firms and from the data available on the sites of NSE concerning specific sectors.

6.1 Concepts of Profitability and Disinvestment:

Profitability of a business enterprise is one of the most important parameters and absolute profitability has no meaning as the size and other parameters also differ. Hence it has been calculated using ratios which are simple to calculate and easy to understand. A single profitability ratio in itself does not convey much of the sense. Further, there is no international standard for financial ratios against which results can be compared. If several profitability ratios are used, it is possible that they may yield different conclusions for the same firm.

The numbers of profitability ratios that one can compute from financial statement are almost unlimited. Because within each of the main categories of profitability ratios; there are minimum four ratios. Further, different authors use different bases for finding out the ratios. Most of the profitability ratios under each of the main categories overlap in the information they provide about profitability. In this research, an attempt has been made to measure the profitability of each individual enterprise before disinvestment which covers a period of pre and post disinvestment which covers a period of 10 years.

On the basis of literature available in standard text book on the subject, following main ratios under different heads have been identified which will be subject to empirical testing for their degree of association. These ratios are:

(A) Return on Total Assets

1. Earnings before depreciation, interest and tax to Gross Total Assets called Gross Surplus Ratio (GSR)
2. Earnings before interest and tax to Total Assets (EBIT/TA)
3. Operating Cash Flow to Gross Total Assets (OCF/GTA)
4. Profit After Tax to Total Tangible assets (PAT/TTA)

(B) Return on Capital employed

1. Retained cash flow to Capital employed called Cash Flow Ploughed Back Ratio (CFPBR)
2. Net Profit Before Interest and Tax to Capital Employed (NPBIT/CE)

(C) Return on Shareholders' Equity

1. Profit After Tax to Shareholders' Equity{PAT/SHE)
2. Operating Cash Flow to Shareholders' Equity (OCF/SHE)
3. Earnings Before Interest and Tax to Interest Charges (EBIT/Fixed Interest Charges)

The analysis of the above profitability ratios of selected public sector industries across various sectors during before and after disinvestment period has been discussed in the following paragraph.

Gross Profit Ratio

It expresses the relationship between gross profit and net sales. It is obtained by dividing gross profit by net sales and is usually expressed in percentage. A higher gross profit ratio indicates a sign of good management as it implies that the cost of production is kept at a low level. It may also indicate a higher sale price without a corresponding increase in the cost of goods sold. A relatively low gross profit ratio is a danger signal. It may be due to increase in the cost of production without a corresponding increase in the sales price or even decrease in the sales price without a corresponding decline in the cost of production. The gross profit ratios for the selected Indian public sector undertakings viz. Steel, Minerals and Metals, Coal and Lignite, Power, Petroleum and Chemicals and Petrochemical have been discussed.

Table 6.1

Gross Profit Ratio; Prior to and after Disinvestments

Sectors	Lowest		Highest		Average		CAGR	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Steel	2.11	2.84	7.53	13.2	3.56	7.2	8.05	9.74
Mineral and Metals	-0.41	-0.77	0.10	24.32	6.63	21.20	14.30	9.35
Coal and Lignite	1.71	9.10	7.40	29.20	3.80	15.93	6.7	3.9
Power	2.27	6.94	5.00	3.00	6.57	5.79	2.09	3.01
Petroleum	9.20	14.60	8.91	13.40	11.88	11.04	0.81	2.49

CAGR: Compound Annul Growth Rate

The gross profit ratio of Steel industry reveals an increasing trend in, the pre-disinvestment period. Reference to table 6.1 shows that it was 2.11 in 2007-08 (the lowest range) and *indicates 7.53 in 2008-09 as the highest* range barring *2000-01* which was *2.11. It* implies gradual increase in gross profit to a limited extent. The post-disinvestment shows 2.84 in 2001-2002 as the lowest and 13.20 in 2005-06. The average of this ratio is 3.65 in the pre-disinvestment period, whereas in the post-disinvestment period the average of this ratio is 7.20. This shows that the gross profit ratio has improved in the Post-disinvestment period However, this was not significant as per 't' value. While considering the whole period, the average of this ratio refers to 5.42. The high value of the two periods reveals more fluctuations in this ratio in the pre and post disinvestment period. The compound annual growth rate of this ratio of Steel industry for the two periods is referred to as 8.05 in pre-disinvestment period and 9.74 in the post-disinvestment periods.

In Minerals and Metals industry, the gross profit ratio is ranging from 0.10 in 2001-02 to 24.32 in 2007-08 barring - 0.41 and - 0.77 respectively for the pre-disinvestment period. For the post-disinvestment period the Gross Profit ratio ranged between 14.27. The average of this ratio before disinvestment is 6.63 and 21.20 for the post-disinvestment period which indicates that there is a significant improvement in the gross profit ratio of Minerals and

Metals industry during post-disinvestment period which is found significant at 1 % level. The average of this ratio for the whole period is 14.30 and 09.35 respectively for pre and post disinvestment period. The average growth for pre and post disinvestment period in this industry was 6.7 and 3.9 respectively.

The range of gross profit ratio in Coal and Lignite industry is 1.71, the lowest being 9.10 and the highest for the pre-disinvestment period barring 2001-02 and 2007-08 which shows -4.88 and 5.66 respectively. The lowest and highest range of gross profit ratio is 7.40 in 2005-06 and 29.20 in 2007-08 for the post-disinvestment period. The average of this ratio is 3.80 and 15.93 in the pre and post disinvestment period respectively. The average of this ratio of Coal and Lignite is marked with significant improvement in the post-disinvestment period.

The scenario of power sector reflects that the gross profit ratio in the Power sector in the pre-disinvestment period is 2.27 as against 6.94 in 2001-02 and 5.00 in 2007-08 during post-disinvestment period. The average of this ratio before disinvestment was 6.57 against 5.79 in the post-disinvestment period. The mean difference between gross profit ratio in the pre-disinvestment and post-disinvestment was found to be significant at 5% level. For the whole period the average of this ratio computed was 1.90. The decrease in gross profit ratio may be due to the reason that the Power industry's operational efficiency was not satisfactory in the post-disinvestment period. The average growth for pre and post disinvestment period in this industry was 2.09 and 3.01 respectively.

In Petroleum industry, the gross profit ratio ranged between 9.20 and 14.60 in the pre-disinvestment period whereas it ranged between 8.91 in 2001-02 to 13.40 in 2007-08 in the post-disinvestment period. The average of this ratio of petroleum industry stood at 11.88 against 11.04 in the pre-disinvestment and post-disinvestment periods respectively. For the whole period the average of this ratio was 11.46. Both pre and post-disinvestment periods registered more consistency in this ratio. The compound annual growth rate in this ratio before disinvestment was 0.81 against 2.49 in the post disinvestment period.

The overall analysis of statistical values of gross profit ratio for these industries suggests that among all the selected industries under review, the difference in mean values between before and after disinvestment was the highest in Minerals and Metals followed by Coal

and Lignite and then Steel. All the three remaining industries registered lesser improvement in this ratio in the post-disinvestment period. Thus it is clear from the above analysis that the industries viz. Steel, Minerals and Metals and Coal and Lignite's had a better management in post-disinvestment period than the other industries.

Earnings before Depreciation, Interest and Tax (EBDIT) to Sales Ratio

EBDIT to sales ratio is otherwise known as Gross earnings ratio. It shows the amount left after making all the expenses excluding depreciation, interest and tax out of every hundred rupees of the net sales. It indicates the manufacturing efficiency of a company. The determinants of the ratio are earnings before depreciation, interest and tax and net sales. It is obtained by dividing earnings before depreciation, interest and tax by net sales and is expressed in percentage. The use of earnings before depreciation, interest and tax is an attempt to eliminate the effect of changing depreciation policy of a firm over years, varying methods of financing the capital employed by different industries, varying opportunities in availing tax incentives and the taxes paid which are not controllable by the management. Hence this ratio will be more effective in cross sectional comparison of firms.

Table 6.2

Earning before Depreciation, Interest and Taxes prior to and after Disinvestments

Sectors	Lowest		Highest		Average		CAGR	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Steel	2.71	14.77	13.53	19.65	10.56	16.47	9.55	2.05
Coal and Lignite	3.05	15.50	11.42	25.21	8.31	11.36	6.07	3.85
Power	9.70	7.35	18.59	19.78	54.35	8.49	-0.81	2.86
Petroleum	12.37	19.31	11.42	28.44	16.57	16.53	0.75	3.81

As shown in table 6.2, earnings before depreciation, interest and tax to sales ratio of Steel industry shows a fluctuating trend in the pre disinvestment period. It ranged from 2.71 in 2001-02 to 14.77 in 2007-08. In the post-disinvestment period also there was a fluctuating trend. This ratio ranged from 13.53 in 1991-92 to 19.65 in 2000-01. The average of this ratio was 10.56 in the pre disinvestment period whereas it was 16.47 in the post--

disinvestment period. The average of this ratio for the whole period was 13.51. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 9.55 and 2.05 respectively.

Earnings before depreciation, interest and tax to sales ratio of Coal and Lignite industry shows a fluctuating trend in the pre disinvestment period. It ranged from 3.05 in 2001-02 to 15.50 in 2007-08. In the post-disinvestment period also there was a fluctuating trend which ranged from 13.05 in 2007-08 to 38.15 in 2008-09. The average of this ratio was 11.42 in the pre disinvestment period whereas it was 25.21 in the post-disinvestment period. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 6.07 and 3.85 respectively.

Earnings before depreciation, interest and tax to sales ratio of Power industry shows a fluctuating trend in the pre disinvestment period. It ranged from 9.70 in 2001-02 to 7.35 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in this ratio which ranged from 8.59 in 2007-08 to 19.75 in 2007-08. The average of this ratio was 4.35 in the pre-disinvestment period whereas it was 8.49 in the post-disinvestment period. The compound annual growth rate in this ratio in the pre and post-disinvestment period was -0.81 and 2.86 respectively.

Earnings before depreciation, interest and tax to sales ratio of Petroleum industry shows a fluctuating trend in the pre disinvestment period. It ranged from 12.73 in to 19.3. In the post-disinvestment period also there was a fluctuating trend in this ratio which ranged from 11.42 in 2001-02 to 28.44 in 2007-08. The average of this ratio was 16.57 in the pre disinvestment period whereas it was 16.53 in the post-disinvestment period. There is a slight reduction in this ratio in the post-disinvestment period. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 0.75 and 3.81 respectively.

From the above discussion it is clear that an improvement in the earnings before depreciation, interest and tax to sales ratio was there in four industries which are ranked as Coal and Lignite, Mine rals and Metals, Steel and Chemicals and Petrochemical. This indicates that the manufacturing efficiency of the above said industries has improved in the post-disinvestment period over the pre-disinvestment period. On the other hand Power and

Petroleum industries which showed negative deviation were marked with lower manufacturing efficiency during the study period under review.

Operating Cash Flow to Net Sales

Operating Cash Flow (OCF) has been taken as the sum of Profit After Tax (PAT) and depreciation provided during the year. It is calculated by taking operating cash flow as numerator and net sales as denominator.

Table 6.3

Operating Cash Flows to Net Sales; Prior to and after Disinvestments

Sectors	Lowest		Highest		Average		CAGR	
Sectors	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Steel	0.96	9.87	1.96	12.07	5.85	6.26	16.07	-9.57
Mineral and Metals	0.68	26.26	5.01	29.63	10.2	21.85	37.27	-3.58
Power	33.74	43.56	27.13	41.63	36.2	32.59	1.37	1.81
Petroleum	3.90	10.27	1.30	18.14	6.74	8.85	-6.82	-11.87

The ration of operating cash flow to net sales, as shown in the above table registered in Steel Industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.96 in 2001-02 to 9.87 in 2007-08 in the pre disinvestment period. In the post-disinvestment period also there was a fluctuating trend in Steel industry which ranged from 1.96 in 2000-01 to 12.07 in 2007-08. The average of this ratio was 5.85 in the pre disinvestment period whereas it was 6.26 in the post- disinvestment period. The change in this ratio was not found significant. The average of this ratio for the whole period accounted for 6.05. In both pre and post-disinvestment periods more fluctuation in this ratio was observed. The compound annual growth rate in: this ratio in the pre and post-disinvestment period was 16.07 and -9.57 respectively.

The operating cash flow to net sales registered in Minerals and Metals industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.68 in 2001-02 to 26.26 in 2007-08 in the pre disinvestment period. In the post-disinvestment period also there was a fluctuating trend in Minerals and Metals industry which ranged from 15.01 in 2001-02 to

29.63 in 2007-08. The average of this ratio was 10.20 in the pre disinvestment period whereas it was 21.85 in the post-disinvestment period. There was remarkable improvement in this ratio in the post-disinvestment period which was found to be significant at 1% level. The average of this ratio for the whole period accounted for 16.42. In Minerals and Metals industry there was more consistency in this ratio in the post-disinvestment period whereas there was less consistency in the pre disinvestment period. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 37.27 and -3.58 respectively.

The operating cash flow to net sales registered in Power industry shows a fluctuating trend in the pre disinvestment period. It ranged from 33.74 in 2001-02 to 43.56 in 2007-08 in the pre disinvestment period. In the post-disinvestment period also there was a fluctuating trend in Power industry which ranged from 27.13 to 41.63. The average of this ratio was 36.2002 in the pre disinvestment period whereas it was 32.59 in the post-disinvestment period. There was reduction in the average of this ratio. However, the difference in mean was found to be significant at 5% level. The average of this ratio for the whole period accounted for 34.63. There was more consistency in this ratio in both pre and post-disinvestment periods. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 1.37 and 1.81 respectively.

The operating cash flow to net sales registered in Chemicals and Petrochemical industry shows a fluctuating trend in the pre disinvestment period. It ranged from 3.90 in 2001-02 to 10.27 in 2007-08 in the pre disinvestment period. In the post-disinvestment period also there was a fluctuating trend in Chemicals and Petrochemical industry which ranged from 1.30 to 18.14. The average of this ratio was 6.74 in the pre disinvestment period whereas it was 8.85 in the post-disinvestment period. The difference in mean value of this ratio was found to be insignificant. The average of this ratio for the whole period accounted for 7.80. The compound annual growth rate in this ratio in the pre and post-disinvestment period was -6.82 and -11.87 respectively. In both the pre and post-disinvestment there was negative deviation in the growth performance.

The overall appraisal of operating cash flow sales ratio depicts that it has improved over the post-disinvestment periods in all the selected industries except Power and Petroleum which are marked with negative results. It may further be noticed that operating cash flow to net

sales was more in Minerals & Metals industry followed by Coal and Lignite, Steel and Chemicals and Petrochemical.

Profit before Tax to Sales Ratio:

The ratio of before tax and sales are also very important to study the trend. Following table shows the effect.

Table 6.4

Ratio of Profit before Tax to Sales before and after Disinvestments

Sectors	Lowest		Highest		Average		CAGR	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Steel								
Mineral and Metals	0.03	3.31	4.87	6.05	1.35	-3.18	11.06	-20.97
Coal and Lignite	1.16	10.88	1.14	22.23	0.10	3.96	20.13	-11.84
Power	1.49	13.37	9.97	21.49	-4.85	14.74	4.94	

The profit before tax to sales ratio in Steel industry showed a fluctuating trend in the pre disinvestment period. It ranged from 0.03 in 2001-02 to 3.31 in the pre disinvestment period. In the post-disinvestment period also there was a fluctuating trend in Steel industry which ranged from 4.87 to 6.05. All the remaining years in the post-disinvestment period registered negative values. The average of this ratio was -1.35 in the pre disinvestment period whereas it was -3.18 in the post-disinvestment period. The mean difference was found to be insignificant. The average of this ratio for the whole period accounted for 2.26. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 11.06 and -20.67 respectively.

The profit before tax to sales ratio registered in Minerals and Metals industry shows a fluctuating trend in the pre disinvestment period. It ranged from 1.49 in 2001-02 to 13.37 in

2007-08 in the pre disinvestment period. In the post-disinvestment period also there was a fluctuating trend in Minerals and Metals industry which ranged from 6.97 to 21.49. All the remaining years in the post-disinvestment period registered negative values. The average of this ratio was -4.85 in the pre disinvestment period whereas it was 14.74 in the post-disinvestment period. The mean difference was found to be significant at 1% level. The average Profit before tax to sales ratio for the whole period accounted for 4.94.

The profit before tax to sales ratio registered in Power industry shows a fluctuating trend in the pre disinvestment period. It ranged from 3.34 to 3.52 in the pre and post disinvestment period. In the post-disinvestment period also there was a fluctuating trend in Power industry which ranged from 15.58 to 25.43. The average of this ratio was 25.84 in the pre disinvestment period whereas it was 20.06 in the post-disinvestment period. The mean difference of this ratio was found to be insignificant. The average of this ratio for the whole period accounted for 22.80. Compound growth was 13.26 and 15.78 respectively in pre and post disinvestment era.

The profit before tax to sales ratio registered in Chemicals and Petrochemical industry shows a fluctuating trend in the pre disinvestment period. It ranged from 1.16 in 2001-02 to 10.88 in 2007-08, all the remaining year registered only n«lgative ratio in the pre disinvestment period. In the post-disinvestment period also there was a fluctuating trend in Chemicals and Petrochemical industry which ranged from 1.14 in 2001-02 to 22.23 in 2007-08 barring 2007-08 wherein it registered negative ratios. The average of this ratio was 0.10 in the pre disinvestment period whereas it was 3.96 in the post-disinvestment period. The mean difference was found to be insignificant. The average of this ratio for the whole period accounted for 2.03. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 20.13 and -11.84 respectively.

Steel industry's performance in both pre and post-disinvestment period shows negative values which implies that the interest burden of the industry have increased from year to year. Hence in the twenty years period the industry could not show improved performance in this ratio. Minerals and Metals and Coal and Lignite's performance has improved in the post-disinvestment period. Interest expense being the major factor which has an important bearing on the profitability of the industries, its burden could be felt in Power, Petroleum

and Chemicals and Petrochemical which is evident through the reduction in the average of this ratio.

Net Profit Ratio

It shows the relationship between the net profits and sales of a concern. It indicates what portion of net sales is left for the shareholders after all the costs, charges and expenses have been deducted. It is obtained by dividing profit after taxes by net sales and expressed in percentage. It is the ultimate measure of efficiency of management or in other words this ratio helps in determining the efficiency with which the affairs of the business are being managed. A high net profit ratio only means adequate returns to the owners. This enables a firm to withstand intense competition when the selling price is declining or cost of production is rising. A low net profit ratio on the other hand indicates inadequate returns to the owners. Table given below shows the calculations

Table 6.5

Net Profit Ratio; Prior to and after Disinvestments

Sectors	Lowest		Highest		Average		CAGR	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Steel	0.60	2.60	4.50	6.01	-1.24	-1.00	1865	7.39
Mineral and Metals	1.33	12.52	0.06	19.66	-2.99	11.00	33.87	14.83
Coal and Lignite	2.38	2.66	1.56	10.08	-4.27	4.83	-25.28	-7.2
Power	0.35	33.64	0.01	24.86	24.79	17.12	11.14	-12.60
Petroleum	3.2	3.16	4.22	7.55	6.44	5.77	6.53	-0.85
Chemicals & Petrochemical Industry	0.44	1.35	0.35	1.39	-1.2	2.38	5.70	-11.12

The net 'profit ratio registered in Steel industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.60 in 2001-02 to 2.60 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Steel industry which ranged from 4.50 in 2001-08 to 6.01 in 2007-08. All the remaining years showed negative ratios. The average net profit ratio was -1.24 in the pre disinvestment period whereas it was -1.00 in

the post-disinvestment period. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 18.65 and 7.39 respectively.

The net profit ratio registered in Minerals and Metals industry shows a fluctuating trend in the pre disinvestment period. It ranged from 1.33 in 2001-02 to 12.52 in 2008-09 in the pre disinvestment period. In the post-disinvestment period also there was a fluctuating trend in Minerals and Metals industry which ranged from 0.06 in 2007-08 to 19.66 in 2007-08. The average of this ratio was -2.99 in the pre disinvestment period whereas it was 11.00 in the post-disinvestment period. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 33.87 and 14.83 respectively.

The net profit ratio registered in Coal and Lignite industry shows a fluctuating trend in the pre-disinvestment period. It ranged from 2.38 in 2001-02 to 2.66 in 2001-02, all the remaining years showed negative ratios. In the post-disinvestment period also there was a fluctuating trend in Coal and Lignite industry which ranged from 1.56 in 2002-2003 to 10.08 in 2001-2002. The average of this ratio was -4.27 in the pre disinvestment period whereas it was 4.83 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.28. There was more variation in the net profit ratio in both pre and post-disinvestment period. The compound annual growth rate in this ratio in the pre and post-disinvestment period was -25.28 and -7.20 respectively.

The net profit ratio registered in Power industry shows a fluctuating trend in the pre-disinvestment period. It ranged from 0.35. In the post-disinvestment period also there was a fluctuating trend in Power industry which ranged from 0.01 in 2001-2002 to 24.86 in 2007 - 08. The average of this ratio was 24.79 in the pre-disinvestment period whereas it was 17.12 in the post-disinvestment period. The average net profit ratio for the whole period accounted for 20.75. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 11.14 and -12.60 respectively.

The net profit ratio registered in Petroleum industry shows a fluctuating trend in the pre-disinvestment period. It ranged from 3.20 in 2001-02 to 9.16 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Petroleum industry which ranged from 4.22 in 1991-92 to 7.55 in 2007-08. The average of this ratio was 6.44 in the pre disinvestment period whereas it was 5.77 in the post-disinvestment period. The average of

this ratio for the whole period accounted for 6.10. The mean difference was found to be insignificant. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 6.53 and -0.85 respectively.

The net profit ratio registered in Chemicals and Petrochemical industry reflects a fluctuating trend in the pre disinvestment period. It ranged from 0.44 to 1.13 in 2001-02, all the remaining years showed negative. In the post-disinvestment period also there was a fluctuating trend in Chemicals and Petrochemical industry which ranged from 0.35 to 1.39 in this period. The average of this Ratio was -1.2002 in the pre disinvestment period whereas it was 2.38 in the post-disinvestment period. The average of this Ratio for the whole period accounted for 0.25. The mean difference was found to be insignificant. CV value reflects very high degree of variability in their Net Profit earnings during the post-disinvestment periods. In the pre-disinvestment period also there was high fluctuation. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 5.70 and -11.12 respectively.

From the above said analysis it could be inferred that the efficiency with which the industry was nm is more because of increased net profit ratio in Minerals and Metals followed by Coal and Lignite and Chemicals and Petrochemical. All the remaining three industries viz. Steel, Power and Petroleum industries reduction in the Net Profit Ratio indicates inadequate returns to owners.

(B) Return on Total Assets (ROTA)

The return on total assets measures the overall efficiency of the management in generating profits given for a given level of assets at its disposal. The ROTA essentially relates the profits to the size of the firnl (which is measured in terms of the assets). If a firm increases its size but is unable to increase its profits proportionately, then the ROTA will decrease. In such a case, increasing the size of the assets i.e. the size of the firm will not by itself advance the financial welfare of the owners. Under this heading fall the following ratios.

- Earnings Before Depreciation, Interest and Tax (EBDIT) to Gross total Assets (GTA) Ratio
- Gross Profit to Total Assets Ratio

- Operating Cash Flow to Gross Total Assets Ratio (OCF/GT A)
- Profit After Tax to Total Tangible Assets Ratio (PAT/TTA)

Now these ratios have been taken into account for discussion. Earnings Before Depreciation, Interest and Tax (EBDIT) to Gross Total Assets (GT A) Ratio. It is otherwise called Gross Surplus Ratio. The gross surplus ratio reflects how much the firm has earned on the investment of all the financial resources committed to the firm. The overall profitability of a firm may be appropriately judged by this measure if one considers eliminating the effect of different methods firms use in the financing of assets. This ratio is considered to be one of the very effective measures of the management's performance in cost effectiveness and measures how effectively total assets are being utilised by a firm. This ratio takes into account the non-operating income which is fairly substantial in some companies. Therefore Gross Surplus Ratio is a precise and effective measure of the profitability. It reflects the combined effect of both operations and financing activities of a company. It has been defined as the ratio of Earnings Before Depreciation, Interest and Tax (EBDIT) to Gross Total Assets and expressed in percentage. The reason for using EBDIT has already been explained in the Gross Earnings Ratio. The use of GTA (Gross Total Assets) as the denominator is an attempt to eliminate the effect of different methods used in financing of assets as well as to take care of the effect of depreciation which may change over the years. Hence, this ratio will be quite useful in cross sectional comparison. Accordingly to study the overall profitability by a single measure this ratio has been used in the study.

Table 6.6

Return on total assets; Prior to and after Disinvestments

Sectors	Lowest		Highest		Average		CAGR	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Steel	0.01	0.36	0.04	0.45	0.07	0.09	9.48	13.47
Mineral and Metals	0.01	0.12	0.06	0.11	0.04	0.09	14.87	2.94
Coal and Lignite	0.01	0.06	0.05	0.10	0.04	0.08	4.15	2.00
Power	0.0	0.06	0.05	0.13	0.04	0.08	14.32	11.17
Petroleum	0.08	0.18	0.07	0.29	0.13	0.11	-8.71	10.2
Chemicals & Petrochemical	0.02	0.13	0.05	0.08	0.06	-	-2.15	6.83

The earnings before depreciation interest and tax to gross total assets registered in Steel industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.01 to 0.36 in the post-disinvestment period and also there was a fluctuating trend in Steel industry which ranged between 0.04 in 2001-01 to 2007-08 and 0.45 thereafter. The average of this ratio was 0.07 in the pre disinvestment period whereas it was 0.09 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.08. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 9.48 and 13.47 respectively.

The earnings before depreciation interest and tax to gross total assets registered in Minerals and Metals industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.01 in 2001-02 to 0.12 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Minerals and Metals industry which ranged from 0.06 in 2007-08 to 0.11. The average of this ratio was 0.04 in the pre disinvestment period whereas it was 0.09 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.07. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 14.87 and 2.94 respectively.

The earnings before depreciation interest and tax to gross total assets registered in Coal and Lignite industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.01 in 2001-02 to 0.06 in 2007-08. In the post-disinvestment period also there was a

fluctuating trend in Coal and Lignite industry which ranged from 0.05 in 2000-01 to 0.10. The average of this ratio was 0.04 in the pre disinvestment period whereas it was 0.08 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.06. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 4.15 and 2.00 respectively.

The earnings before depreciation interest and tax to gross total assets ratio registered in Power industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.0 in 2001-02 to 0.06 in 2007-08. In the post-disinvestment period also there was a fluctuating 'trend ' in Power industry which ranged from 0.05 in 2007-08 and 2001-02 to 0.13 in 2008-09. The average of this ratio was 0.04 in the pre disinvestment period whereas it was 0.08 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.06. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 14.32 and 11.17 respectively. :

The earnings before depreciation interest and tax to gross total assets ratio registered in Petroleum industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.08 in 2001-02 to 0.18 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Petroleum industry which ranged from 0.07 to 0.27. The average of this ratio was 0.13 in the pre disinvestment period whereas it was 0.11 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.12. The compound annual growth rate in this ratio in the pre and post-disinvestment period was -8.71 and 10.2 respectively.

The earnings before depreciation interest and tax to gross total assets ratio registered in Chemicals and Petrochemical industry shows a fluctuating trend in the pre disinvestment period. In the post-disinvestment period also there was a fluctuating trend in Chemicals and Petrochemical industry which ranged from 0.02 in 2001-02 to 0.13 in 2007-08. The average of this ratio was 0.05 in the pre disinvestment period whereas it was 0.08 in the Post-disinvestment period. The average of this ratio for the whole period accounted for 0.06. The compound annual growth rate in this ratio in the pre and post-disinvestment period was -2.15 and 6.83 respectively.

The overall analysis of earnings before depreciation interest and tax to 'gross total assets ratio implies that except petroleum industry there was effective utilisation of total assets in the concerned industries during the study period under review. Because earnings before depreciation interest and tax to gross total assets ratio have improved in all the industries except petroleum which was marked with negative ratio in the post disinvestment period.

Gross Profit to Total Assets Ratio

Gross Profit is the excess of the Net Sales proceeds over the cost of sales. It reflects the efficiency with which management produces each unit of product. Total Assets have been taken as sum of all the assets net of depreciation. The ratio is computed by dividing gross profit to total assets. Calculations show the effect prior to and after disinvestments on the next page

Table 6.7

Ratios of Gross Profit to Total Assets; before and after Disinvestments

Sectors	Lowest		Highest		Average		CAGR	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Steel	0.78	4.41	1.09	5.17	1.67	3.38	11.13	8.87
Mineral and Metals	0.02	10.2	4.67	12.06	2.21	8.50	50.82	6.80
Coal and Lignite	0.59	3.78	3.61	11.46	1.58	6.99	6.56	5.67
Power	1.39	5.45	4.39	12.29	4.04	7.56	13.23	12.47
Petroleum	8.88	22.21	7.45	15.2	10.77	13.11	-9.54	8.25
Chemicals & Petrochemical Industry	1.27	4.64	3.88	14.40	2.79	7.34	5.68	1.18

The gross profit to total assets ratio registered in Steel industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.78 in 2001-02 to 4.41 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Steel industry which ranged from 1.09 in 2001-02 to 5.17 in 2007-08. The average Gross Profit to Total Assets Ratio was 1.67 in the pre disinvestment period whereas it was 3.38 in the post-disinvestment period. The average of this ratio for the whole period accounted for 2.53. The mean difference was found to be significant at 1 % level. CV values in both Pre and Post-

disinvestment period reflects high fluctuation in gross profit to total assets ratio. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 11.13 and 8.87 respectively.

The gross profit total assets ratio registered in Minerals and Metals industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.02 in 2001-02 to 10.2002 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Minerals and Metals industry which ranged from 4.67 in 2007-08 to 12.06. The average of this ratio was 2.21 in the pre disinvestment period whereas it was 8.50 in the post-disinvestment period. The average of this ratio for the whole period accounted for 5.36. The Compound Annual Growth Rate in this ratio in the pre and post-disinvestment period was 50.82 and 6.80 respectively.

The gross profit to total assets ratio registered in Coal and Lignite industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.59 in 2001-01 to 3.78 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Coal and Lignite industry which ranged from 3.61 in 2001-02 to 11.46. The average of this ratio was 1.58 in the pre disinvestment period whereas it was 6.99 in the post-disinvestment period. The average of this ratio for the whole period accounted for 4.29. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 6.56 and 5.67 respectively.

The gross profit to total assets ratio registered in Power industry shows a fluctuating trend in the pre disinvestment period. It ranged from 1.39 in 2001-02 to 5.45 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Power industry which ranged from 4.39, in 2007-08 to 12.29 in 2008-09. The average of this ratio was 4.04 in the pre disinvestment period whereas it was 7.56 in the post-disinvestment period. The average of this ratio for the whole period accounted for 5.2002. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 13.23 and 12.47 respectively.

The gross profit to total assets ratio registered in Petroleum industry shows a fluctuating trend in the pre disinvestment period. It ranged from 8.88 in 2001-02 to 22.21 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Petroleum industry which ranged from 7.45 in 2001-02 to 15.20 in 2007-08. The average of this ratio was

15.46 in the pre disinvestment period whereas it was 10.77 in the post-disinvestment period. The average of this ratio for the whole period accounted for 13.11. The compound annual growth rate in this ratio in the pre and post-disinvestment period was -9.54 and 8.25 respectively.

The gross profit to total assets ratio registered in Chemicals and Petrochemical industry shows a fluctuating trend in the pre disinvestment period. It ranged from 1.27 in 2001-02 to 4.64 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Chemicals and Petrochemical industry which ranged from 3.88 in 2001-02 to 14.40 in 2007-08. The average of this ratio was 2.79 in the pre disinvestment period whereas it was 7.34 in the post-disinvestment period. The average of this ratio for the whole period accounted for 5.07. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 5.68 and 1.18 respectively.

It can be inferred from the above analysis that the mean difference between pre and post-disinvestment period showed improved performance except petroleum industry which indicated poor performance in this ratio when compared with the pre-disinvestment period. Among the industries which showed positive difference, Minerals and Metals industry's average was the highest followed by Coal and Lignite, Chemicals and Petrochemical, Power and Steel. This shows the production efficiency of these industries has increased due to open market refom1s introduced by the Government of India.

Operating Cash Flow to Gross Total Assets Ratio *(OCF/GT* A)

Operating Cash Flow has been taken as the sum of Profit After Tax and Depreciation provided during the year. The sum of all the assets net of depreciation has been taken as gross total assets. The ratio is computed by taking operating cash flow as the numerator and gross total assets as the denominator.

Table 6.8

Ratio of Operating Profit to Total Assets; Prior to and after Disinvestments

Sectors	Lowest		Highest		Average		CAGR	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Steel	0.01	0.03	0.01	0.02	0.02	-	9.88	7.96
Mineral and Metals	0.02	0.03	0.03	0.11	0.02	0.06	20.66	4.33
Coal and Lignite	0.02	0.03	0.01	0.07	0.01	0.05	2.48	-6.23
Power	0.03	0.05	-	-	-	0.04	6.67	7.2
Petroleum	0.06	0.20	0.02	0.08	0.08	0.06	2.52	0.48
Chemicals & Petrochemical Industry	0.01	1.24	0.01	0.07	0.02	0.03	-6.05	-10.34

The operating cash flow to gross total assets ratio, as shown in table 6.8 registered in Steel industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.01 in 2001-02 and 2007-08 to 0.03. In the post-disinvestment period a constant increase of 0.01 could be noticed all through the 7 years period. The average of this ratio was 0.02 which is the same for pre and post-disinvestment period. The whole period's average is 0.02. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 9.88 and 7.96 respectively.

The operating cash flow to gross total assets ratio registered in Minerals and Metals industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.02 in 2001-02 to 0.03 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Minerals and Metals industry which ranged from 0.03 in 2001-02 to 0.11 in 2007-08. The average of this ratio was 0.02 in the pre disinvestment period whereas it was 0.06 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.04. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 20.66 and 4.33 respectively.

The operating cash flow to gross total assets ratio registered in Coal and Lignite industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.02 in to 0.03 in 2001-02 and 2008-09. In the post-disinvestment period also there was a fluctuating trend in

Coal and Lignite industry which ranged from 0.01 in 2000-01 to 0.07 in 2007-08. The average of this ratio was 0.01 in the pre disinvestment period whereas it was 0.05 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.03. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 2.48 and -6.23 respectively.

In Power industry the operation cash flow to gross total assets ratio showed cyclical variations in the pre-disinvestment period. In the post-disinvestment period also its performance was in the same manner. The average of this ratio was 0.03 in the pre disinvestment period whereas it was 0.05 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.04. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 6.67 and 7.20 respectively.

The operating cash flow to gross total assets ratio registered in Petroleum industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.06 in 2001-02 to 0.20 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Petroleum industry which ranged from 0.02 in 2001-02 to 0.08 in 2007-08. The average of this ratio was 0.08 in the pre disinvestment period where as it was 0.06 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.07. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 2.52 and 0.48 respectively.

The operating cash flow to gross total assets ratio registered in Chemicals and Petrochemical industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.01 in 2001-02 to 1.24 in 2008-09. In the post-disinvestment period also there was a fluctuating trend in this ratio which ranged from 0.01 in 2007-08 to 0.07 in 2008-09. The average of this ratio was 0.02 in the pre-disinvestment period whereas it was 0.03 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.02. The mean difference was found to be insignificant in the both pre and post-disinvestment periods. The compound annual growth rate in this ratio in the pre and post-disinvestment period was -6.05 and -10.34 respectively.

Except Petroleum industry and Steel industry which registered reduced and constant values in the post-disinvestment period when compared with pre-disinvestment period all the

remaining industries performance in the Operation Cash Flow to Gross Total Assets have improved.

Profit After Tax to Total Tangible Assets Ratio (PAT/TTA)

Return on Total Tangible Assets has been defined as the percentage of profit to total tangible assets. The use of total tangible assets is an attempt to eliminate the effect of intangible assets, which may have the least potential sales value. This rate of return shows the productivity of the total tangible assets after meeting all the expenses including taxes. Calculations are shown in table 6.9

Table 6.9

Ratio of Profit after Tax to Tangible Assets; Prior to and after Disinvestments

Sectors	Lowest		Highest		Average		CAGR	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Steel	-	-	-	-	-	-	-6.88	-7.55
Mineral and Metals	0.03	0.05	0.03	0.14	0.05	0.03	24.22	-3.16
Coal and Lignite	0.01	0.05	0.01	0.05	0.01	0.02	-8.68	6.17
Power	0.01	0.32	0.02	0.05	0.05	0.04	36.74	9.41
Petroleum	0.04	0.07	0.02	0.05	0.06	0.04	-3.25	8.16
Chemicals & Petrochemical Industry	0.01	0.01	-	-	-	-	-1.22	-7.03

The profit after tax to total tangible assets ratio in Steel industry indicates very bad shape of the condition prevailing in the industry. It is further proved that the industry is in a worst condition because all values viz. mean, CAGR showed negative values throughout the period of study which is evident through the analysis. The mean difference was found to be insignificant. Both pre and post-disinvestment periods registered high CV values which

indicate high fluctuation during those periods. The compound annual growth rate in this ratio in the pre and post-disinvestment period was -6.88 and -7.55 respectively.

The profit after tax to total tangible assets ratio registered in Minerals and Metals industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.03 in 2001-02 to 0.05 in 2007-08 . In the post-disinvestment period also there was a fluctuating trend in Minerals and Metals industry which ranged from 0.03 in 2001-02 to 0.14 in 2007-08. The average Profit after Tax to Total Tangible Assets Ratio was negligible in the pre-disinvestment period whereas it was 0.05 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.03. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 24.22 and -3.16 respectively.

The profit after tax to total tangible assets ratio registered in Coal and Lignite industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.01 in 2001-82 to 0.05 in 120025-86. In the post-disinvestment period also there was a fluctuating trend in Coal and Lignite industry which ranged from 0.01 in 1991-92, 2001-02and 2000-01 to 0.05 in 2001-2002. The average of this ratio was 0.01 in the pre-disinvestment period whereas it was 0.02 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.02. The mean difference was found to be insignificant. In the both pre and post-disinvestment periods registered high CV values which implies high fluctuations during those periods. The compound annual growth rate in this ratio in the pre and post-disinvestment period was -8.68 and 6.17 respectively.

The profit after tax to total tangible assets ratio registered in Power industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.01 in 2001-02 to 0.32 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Power industry which ranged from 0.02 in 2001-02 to 0.05 in 2007-08. The average of this ratio was 0.05 in the pre-disinvestment period whereas it was 0.04 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.04. The mean difference was found to be insignificant. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 36.74 and 9.41 respectively.

The profit after tax to total tangible assets ratio registered in Petroleum industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.04 in 2001-02 to 0.07 in

2007-08. In the post-disinvestment period also there was a fluctuating trend in Petroleum industry which ranged from 0.02 in 2001-02 to 0.05 in 2007-08. The average of this ratio was 0.06 in the pre-disinvestment period whereas it was 0.04 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.05. The compound annual growth rate in this ratio in the pre and post-disinvestment period was -3.25 and 8.16 respectively.

In Chemicals and Petrochemical the profit after tax to total tangible assets ratio showed very poor performance in the pre as well as post-disinvestment periods. The average pf this ratio was 0.01 in the pre-disinvestment period whereas it was 0.01 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.01. The mean difference was found to be insignificant. High CV value in both the pre and post-disinvestment periods reflects more fluctuations. The compound annual growth rate in this ratio in the pre and post-disinvestment period was -1.22 and -7.03 respectively.

By observing the above analysis, it can be concluded that significant improvement could be noticed only in Minerals and Metals and Coal and Lignite industries. In all other industries under review there were no remarkable changes due to disinvestment measures. Hence the productivity of the total tangible assets was more in Minerals and Metals followed by Coal and Lignite, Chemicals and Petrochemical barring Steel, Power and Petroleum.

(C) Return on Capital Employed

Return on capital employed establishes the relationship between the profits and the capital employed. It is the primary ratio and is mostly widely used to measure the overall profitability and efficiency of a business. The term Capital Employed refers to the total investment made in a business. The various ratios which are considered as effective measurement of return on capital employed are listed as under

- Retained Cash Flow to Capital Employed (RCF/CE)
- Net Profit Before Interest and Tax to Capital Employed (NPBIT/CE)

Retained Cash Flow to Capital Employed

The preservation and increased generation of cash flow is judged by several schools of thought to be one of the primary functions of a business. The cash flow ploughed back

analysis goes straight to the heart of any business enterprise and measures the ability to invest in future growth activities. Growth companies are usually characterized with a higher retention rates. The cash flow ploughed back which is the other name for retained cash flow provides information about how effectively and efficiently the capital (owners as well as outsiders) is being utilised to generate cash for future growth purpose. A high ratio indicates efficient utilisation of capital. The ratio is obtained by dividing retained cash flow by gross capital employed and expressed in Percentage.

Table 6.10

Ratio of Retained Cash Flows to Capital Employed; prior to and after Disinvestments

Sectors	Lowest		Highest		Average		CAGR	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Steel	0.03	0.06	0.02	0.05	0.04	0.02	4.59	-14.40
Mineral and Metals	0.02	0.09	0.06	0.09	0.05	0.08	7.38	-1.04
Coal and Lignite	0.01	0.07	0.05	0.72	0.05	0.13	-2.53	-22.26
Power	0.04	0.10	0.07	0.11	0.07	0.09	3.41	5.57
Petroleum	0.12	0.26	0.11	0.17	0.19	0.13	-7.36	-0.41
Chemicals & Petrochemical Industry	0.06	0.19	0.01	0.11	0.06	0.04	-3.43	-15.82

As shown in table 6.10 above, the retained cash flow to capital employed registered in Steel industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.03 in 2001-02 to 0.06 in 2008-09. In the post-disinvestment period also there was a fluctuating trend in Steel industry which ranged from 0.02 in 2001-02 to 0.05 in 2007-08. The average of this ratio was 0.04 in the pre-disinvestment period whereas it was 0.02 in the post disinvestment period. The average of this ratio for the whole period is less than 1.0 i.e. 03.

The compound annual growth rate of this ratio in the pre and post-disinvestment period was 4.59 and -14.40 respectively.

The retained cash flow to capital employed registered in Minerals and Metals industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.02 in 1. 20 to 0.09 in 2001-02. In the post-disinvestment period also there was a fluctuating trend in Minerals and Metals industry which ranged from 0.06 in 2002-2003 to 0.09 in 2007-08. The average of this ratio was 0.05 in the pre-disinvestment period whereas it was 0.08 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.06. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 7.38 and -1.04 respectively.

The retained cash flow to capital employed registered in Coal and Lignite industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.01 in 1.20 to 0.07 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Coal and Lignite industry which ranged from 0.05 in 2001-02 to 0.72 in 2007-08. The average of this ratio was 0.05 in the pre-disinvestment period whereas it was 0.13 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.09. The mean difference was found to be insignificant. The compound annual growth rate of this ratio in the pre and post-disinvestment period was -2.53 and -22.26 respectively.

The retained cash flow to capital employed registered in Power industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.04 in 2001-02 to 0.10 in 2008-09. In the post-disinvestment period also there was a fluctuating trend in Power industry which ranged between 0.07 in 2001-02 and 0.11 in 2008-09. The average of this ratio was 0.07 in the pre-disinvestment period whereas it was.0.09 in the post disinvestment period. The average of this ratio for the whole period accounted for 0.08. The compound annual growth rate at this ratio in the pre and post-disinvestment period was 3.41 and 5.57 respectively. .

The retained cash flow to capital employed registered in Petroleum industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.12 in 2001-02 to 0.26 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Petroleum industry which ranged from 0.11 in 1992-03 to 0.17 in 2007-08. The average of this ratio

was 0.19 in the pre-disinvestment period whereas it was 0.13 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.16. The compound annual growth rate of this ratio in the pre and post-disinvestment period was -7.36 and -0.41 respectively.

The retained cash flow to capital employed registered in Chemicals and Petrochemical industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.06 in 2001 to 2002 to 0.19 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Chemicals and Petrochemical industry which ranged from 0.01 in 2002-03 to 0.11 in 2007-08. The average of this ratio was 0.06 in the pre-disinvestment period whereas it was 0.04 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.05. The mean difference was found to be insignificant. The compound annual growth rate of this ratio in the pre and post-disinvestment period was -3.43 and -15.82 respectively.

From the above analysis it is clear that there was improvement in Retained Cash Flow to Capital Employed ratio in Coal and Lignite followed by Minerals and Metals and Power whereas in the case of the remaining industries there was reduction in the performance of this ratio. This means that efficient and effective utilisation of capital was more in those industries which showed improvement in this ratio.

Net Profit before Interest and Tax to Capital Employed ratio

It is otherwise called Return on Capital Employed (ROCE). This is one of the most basic profitability ratios. It is a good indicator of the profitability of the capital employed in the firm. The percentage of earnings before interest and tax to capital employed has been taken as the return on capital employed.

Table 6.11

Ratio of Net Profit before Interest and Taxes to Capital Employed; before and after Disinvestments

Sectors	Lowest		Highest		Average		CAGR	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Steel	0.02	0.29	0.05	0.23	0.06	0.11	14.67	-9.60
Mineral and Metals	0.03	0.12	0.08	0.34	0.03	0.16	30.15	14.07
Coal and Lignite	0.01	0.09	0.09	0.31	0.03	0.17	8.07	13.99
Power	0.06	0.11	0.07	0.22	0.09	0.13	5.2	13.10
Petroleum	0.18	0.46	0.17	0.33	0.32	0.26	5.47	6.82
Chemicals & Petrochemical Industry	0.05	0.12	0.09	0.34	0.08	0.15	10.97	0.36

The net profit before Interest and Tax to Capital Employed ratio registered in Steel industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.02 in 2001-02 to 0.29 in 2001-02 . In the post-disinvestment period also there was a fluctuating trend in Steel industry which ranged from 0.05 in 2001-02 to 0.23 in 2007-08. The average of this ratio was 0.06 in the pre-disinvestment period whereas it was 0.11 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.08. The mean difference was found to be insignificant. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 14.67 and -9.60 respectively.

The net profit before interest and tax to capital employed ratio registered in Minerals and Metals industry shows a fluctuating trend in the pre-disinvestment period. It ranged from 0.03 in 2001-02 to 0.12 in 2007-08. Except these two years all the remaining years in the pre-disinvestment period showed only negligible ratio. In the post-disinvestment period also there was a fluctuating trend in Minerals and Metals industry which ranged from 0.08 in 2007-08 to 0.34 in 2000-2001. The average of this ratio was 0.03 in the pre--disinvestment period whereas it was 0.16 in the post-disinvestment period. The average of

this ratio for the whole period accounted for 0.10. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 30.15 and 14.07 respectively.

The net profit before interest and tax to capital employed ratio registered in Coal and Lignite industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.01 in 2001-02 to 0.09 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Coal and Lignite industry which ranged from 0.09 in 2002-03 to 0.31 in 2007-08. The average of this ratio was 0.03 in the pre-disinvestment period whereas it was 0.17 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.10. The compound annual g4owth rate of this ratio in the pre and post-disinvestment period was 8.07 and 13.99 respectively.

The net profit before interest and tax to capital employed ratio registered in Power industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.06 in 2001-02 to 0.11 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Power industry which ranged from 0.07 in 2007-08 to 0.22 in 2000-01. The average of this ratio was 0.09 in the pre-disinvestment period whereas it was 0.13 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.11. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 5.2003 and 13.10 respectively.

The net profit before interest and tax to capital employed ratio registered in Petroleum industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.18 in 2002-03 to 0.46 in 2008-09. In the post-disinvestment period also there was a fluctuating trend in Petroleum industry wl1ich ranged from 0.17 in 2001-02 to 0.33 in 2008-09. The average of this ratio was 0.32 in the pre-disinvestment period whereas it was 0.26 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.29. The mean difference was found to be insignificant. There was moderate fluctuation in both pre and post-disinvestment periods as per CV values. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 5.47 and 6.82 respectively.

The net profit before interest and tax to capital employed ratio registered in Chemicals and Petrochemical industry shows a fluctuating trend in the pre-disinvestment period. It ranged from 0.05 in 2001-02 to 0.12 in 2007-2008. In the post-disinvestment period also there was

a fluctuating trend in Chemicals and Petrochemical industry which ranged from 0.09 in 2001-02 to 0.34 in 2007-08. The average of this ratio was 0.08 in the pre-disinvestment period whereas it was 0.15 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.11. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 10.97 and 0.36 respectively.

Taking into account all the industries under review based on the difference between the average of Net Profit before Interest and Tax to Capital Employed ratio pre and post-disinvestment periods, Coal and Lignite ranked first followed by Chemicals and Petrochemical, Power, Steel and Minerals and Metals. Petroleum industry was omitted for ranking for it showed negative growth rate. This implies that except Petroleum industry, in all other industries profitability of capital employed has marked with a difference between pre and post-disinvestment periods.

(D) Return on Shareholders Equity

Return on Shareholders investment explains the relationship between net profits (after interest and tax) and the proprietor's funds. This ratio is one of the most important ratios used for measuring the overall efficiency of firm. As the primary objective is to maximize its earnings, this ratio indicates the extent to which this primary objective of business is being achieved. This ratio is of great importance to the present and prospective shareholders as well as the management of the company. This ratio reveals how well the resources of a firm are being used, the higher the ratio the better are the results. There are three ratios viz. Profit After Tax to Shareholders' Equity, Operation Cash Flow to Shareholders' Equity and Earnings Before Interest and Tax to Interest Charges which have been discussed in the following pages.

Profit after Tax to Shareholders' Equity

It is otherwise called Return on Equity. The important objective of every business undertaking is profit maximization, defined as a continuous maximization of wealth to the shareholders. This analysis of profitability from shareholders' point of view is meaningful in the sense that it measures the residue of income which really belongs to the owners. The shareholders are the residual owners. They assume maximum risk and have the highest stake in the company. The earnings enabling a most satisfactory return on their funds are

the most desirable objective of a business. The ratio is, thus, of great interest 'to shareholders and great concern to management. Return on equity can be calculated by dividing the net profit after taxes with equity that has been discussed.

Table 6.12

Profit after Tax to Shareholders Equity; before and after Disinvestments

Sectors	Lowest		Highest		Average		CAG	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Steel	0.67	4.51	6.70	9.61	-4.97	-1.31	18.41	-19.11
Mineral and Metals	1.21	9.21	6.25	27.34	-0.60	15.51	46.68	3.94
Coal and Lignite	1.03	3.30	2.53	20.02	-3.55	-7.67	7.38	-7.18
Power	0.90	8.13	7.41	20.59	5.27	13.19	25.68	10.27
Petroleum	91.20	185.20	9.6	229.13	139.75	158.53	1.55	-6.42
Chemicals & Petrochemical Industry	2.21	83.07	-4.63	14.43	-	4.90	-18.73	16.73

The profit after tax to shareholders' equity ratio registered in Steel industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.67 in 2001-02 to 4.51 in 2007-2008. In the post-disinvestment period also there was a fluctuating trend in Steel industry which ranged from 6.70 in 2002-2003 to 9.61 in 2007-08

The average of this ratio was -1.31 in the pre-disinvestment period whereas it was -4.97 in the post-disinvestment period. The average of this ratio for the whole period accounted for -3.14. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 18.41 and -19.11 respectively.

The profit after tax to shareholders' equity ratio registered in Minerals and Metals industry shows a fluctuating trend in the pre disinvestment period. It ranged from 1.24 in 2001-2002 to 9.21 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Minerals and Metals industry which ranged from 6.25 in 2001-02 to 27.34 in 2007-08. The average of this ratio was -0.60 in the pre-disinvestment period whereas it was 15.51 in the post-disinvestment period. The average of this ratio for the whole period accounted for

7.46. The compound annual growth rate in this ratio in the pre and post-disinvestment period was 46.68 and 3.94 respectively.

The profit after tax to shareholders' equity ratio registered in Coal and Lignite industry shows a fluctuating trend in the pre disinvestment period. It ranged from 1.03 in 2001-2002 to 3.30 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Coal and Lignite industry which ranged from 2.53 in 2002-2003 to 20.02 in 2001-2002. The average of this ratio was -3.55 in the pre-disinvestment period whereas it was 7.67 in the post-disinvestment period. The average of this ratio for the whole period accounted for 2.06. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 7.34 and -7.18 respectively.

The profit after tax to shareholders' equity ratio registered in Power industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.90 in 2001-02 to 8.13 in 2001-02. In the post-disinvestment period also there was a fluctuating trend in Power industry which ranged from 7.41 in 2001-02 to 20.59 in 2007-08. The average of this ratio was 5.27 in the pre-disinvestment period whereas it was 13.19 in the post-disinvestment period. The average of this ratio for the whole period accounted for 9.44. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 25.68 and 10.27 respectively.

The profit after tax to shareholders' equity ratio registered in Petroleum industry shows a fluctuating trend in the pre-disinvestment 'period. It ranged from 91.20 in 2002-03 to 185.60 in 2006-07. In the post-disinvestment period also there was a fluctuating trend in Petroleum industry: which ranged from 96.00 in 2002-03 to 229.13 in 2007-08. The average of this ratio was 139.75 in the pre-disinvestment period whereas it was 158.53 in the post-disinvestment period. The average of this ratio for the whole period accounted for 149.14. The mean difference was found to be insignificant. There was more consistency in the pre-disinvestment period whereas it was less consistency during the post-disinvestment period. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 1.55 and -6.42 respectively.

The profit after tax to shareholders' equity ratio registered in Chemicals and Petrochemical industry shows a fluctuating trend in the pre-disinvestment period. In this year the ratio was

0.50. In the post-disinvestment period also there was a fluctuating trend in Chemicals and Petrochemical industry which ranged from 2.21 in 2001-2002 to 83.07 in 2007-08. The average of this ratio was -4.63 in the pre-disinvestment period whereas it was 14.43 in the post-disinvestment period. The average of this ratio for the whole period accounted for 4.90. The compound annual growth rate of this ratio in the pre and post-disinvestment period was -18.73 and -16.73 respectively.

From the above analysis it can be concluded that except steel industry, satisfactory returns have been achieved by all the remaining industries which is due to the fact that in all these industries the impact of disinvestment over its earnings is visible.

Operating Cash Flow to Shareholders' Equity Ratio

Operating Cash Flow has been taken as the sum of PAT and depreciation provided during the year. Whereas shareholders' equity is defined as the total paid up Capital (Ordinary and preference) forfeited shares and accumulated reserves and surplus adjusted for losses. The ratio is computed by dividing operating cash flow to shareholders' equity. The operating cash flow to shareholders' equity ratio of selected industries are incorporated in table 6.13

Table 6.13

Ratio of Operating Cash Flows to Shareholders Equity; prior to and after Disinvestments

Sectors	Lowest		Highest		Average		CAG	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Steel	0.01	0.08	0.03	0.10	0.04	0.05	16.78	-3.31
Mineral and Metals	0.02	0.14	0.06	0.15	0.05	0.10	29.58	-6.73
Coal and Lignite	0.02	0.13	0.07	0.08	0.04	0.26	-0.20	-2.92
Power	0.01	0.08	0.08	0.14	0.05	0.11	20.57	6.2
Petroleum	0.12	1.26	0.51	0.14	0.32	-	-20.59	6.2
Chemicals & Petrochemical	0.03	0.09	0.01	0.06	0.10	0.80	-1.96	-13.27

The operating cash flow to shareholders' equity ratio registered in Steel industry shows a fluctuating trend in the pre-disinvestment period. It ranged from 0.01 in 2001-02 to 0.08 in

2007-2008. In the post-disinvestment period also there was a fluctuating trend in Steel industry which ranged from 0.03 in 2001-2002 to 0.10 in 2007-08. The average of this ratio was 0.04 in the pre-disinvestment period whereas it was 0.05 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.05. The mean difference was found to be insignificant. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 16.78 and -3.31 respectively.

The operating cash flow to shareholders' equity ratio registered in Minerals and Metals industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.02 in 2001-02 to 0.14 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Minerals and Metals industry which ranged from 0.06 in 2001-02 to 0.15 in 2007-08. The average of this ratio was 0.05 in the pre-disinvestment period whereas it was 0.10 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.08. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 29.58 and -6.73 respectively.

The operating cash flow to shareholders' equity ratio registered in Coal and Lignite industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.02 in 2001-02 to 0.13 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Coal and Lignite industry which ranged from 0.07 in 2001-02 to 1 .08 in 2007-08. The average of this ratio was 0.04 in the pre-disinvestment period whereas it was 0.26 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.15. The compound annual growth rate of this ratio in the pre and post-disinvestment period was -0.20 and -2.92 respectively.

The operating cash flow to shareholders' equity ratio registered in Power industry shows a fluctuating trend in the pre-disinvestment period. It ranged from 0.01 in 2001-02 to 0.08 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Power industry which ranged from 0.08 in 2001-02 to 0.14 in 2007-08. The average of this ratio was 0.05 in the pre-disinvestment period whereas it was 0.11 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.08. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 20.57 and 62.00 respectively.

The operating cash flow to shareholders' equity ratio registered in Petroleum industry shows a fluctuating trend in the pre-disinvestment period. It ranged from 0.12 in 2001-02 to 1.26 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Petroleum industry. The average of this ratio was 0.51 in the pre-disinvestment period whereas it was 0.14 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.32. The compound annual growth rate of this ratio in the pre and post-disinvestment period was -20.59 and 4.46 respectively.

The operating cash flow to shareholders' equity ratio registered in Chemicals and Petrochemical industry shows a fluctuating trend in the pre-disinvestment period. It ranged from 0.03 to 0.09 in two observed periods. In the post-disinvestment period also there was a fluctuating trend in Chemicals and Petrochemical industry which ranged from 0.01 in 2002-2003. The average of this ratio was 0.06 in the pre-disinvestment period whereas it was 0.10 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.08. The compound annual growth rate of this ratio in the pre and post-disinvestment period was -1.96 and -13.27 respectively.

From the overall analysis of operating cash flow to shareholders' equity ratio it is implied that except petroleum industry in all other industries the ratio showed improved performance while making comparison with the pre-disinvestment period.

Earnings before Interest and Tax to Interest Charges Ratio

It is otherwise called Times - Interest - Earned (on Interest coverage) Ratio (TIER). This indicates the interest charges are covered by funds that are ordinarily available for their payment. The ratio has been calculated by dividing earnings before interest and tax by interest expenses.

The earnings before interest and tax to interest charges ratio registered in Steel industry shows a fluctuating trend in the pre-disinvestment period. It ranged from 0.28 in 2001-02 to 1.83 in 2007-2008. In the post-disinvestment period also there was a fluctuating trend in Steel industry and which ranged from 0.32 to 1.80. The average of this ratio was 0.80 in the pre-disinvestment period whereas it was 0.96 in the post-disinvestment period. The average of this ratio for the whole period accounted for 0.88. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 10.64 and 3.20 respectively.

Table 6.14

Ratio of Earning before Interest and Taxes to Interest Charges; prior to and after Disinvestments

Sectors	Lowest		Highest		Average		CAG	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Steel	0.28	1.83	0.32	1.80	0.80	0.96	10.64	3.20
Mineral and Metals	0.11	2.22	1.2	9.75	0.69	5.81	29.91	20.50
Coal and Lignite	0.18	1.54	1.26	2.19	0.62	3.07	7.03	18.18
Power	1.2	3.8	2.36	10.99	2.66	3.87	2.92	12.73
Petroleum	2.2	10.23	2.5	10.17	7.54	5.07	-4.50	11.57
Chemicals & Petrochemical Industry	0.46	1.31	0.78	4.34	0.90	1.82	3.65	2.93

The earnings before interest and tax to interest charges ratio registered in Minerals and Metals industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.11 in 2001-02 to 2.22 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Minerals and Metals industry which ranged from 1.20 in 2001-02 to 9.75 in 2007-08. The average of this ratio was 0.69 in the predisinvestment period whereas it was 5.81 in the post-disinvestment period. The average of this ratio for the whole period accounted for 3.25. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 29.91 and 20.50 respectively.

The earnings before interest and tax to interest charges ratio registered in Coal and Lignite industry shows a fluctuating trend in the pre disinvestment period. It ranged from 0.18 in 2001-02 to 1.54 in 2007-08. In the post-disinvestment period also there was a fluctuating trend in Coal and Lignite industry which ranged from 1.26 to 2.19. The average of this ratio was 0.62 in the pre-disinvestment period whereas it was 3.07 in the post-disinvestment period. The average of this ratio for the whole period accounted for 1.85. The compound

annual growth rate of this ratio in the pre and post-disinvestment period was 7.03 and 18.18 respectively.

The earnings before interest and tax to interest charges ratio registered in Power industry shows a fluctuating trend in the pre-disinvestment period. It ranged from 1.20 in to 3.80. In the post-disinvestment period also there was a fluctuating trend in Power industry which ranged from 2.36 in 2001-02 to 10.99 in 2007-08. The average of this ratio was 2.66 in the pre-disinvestment period whereas it was 3.87 in the post-disinvestment period. The average of this ratio for the whole period accounted for 3.27. The mean difference was found to be insignificant. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 2.92 and 12.73 respectively.

The earnings before interest and tax to interest charges ratio registered in Petroleum industry shows a fluctuating trend in the pre-disinvestment period; It ranged from 2.20 to 10.23. In the post-disinvestment period also there was a fluctuating trend in Petroleum industry which ranged from 2.50 in 2001-02 to 10.17 in 2007-08. The average of this ratio was 7.54 in the pre-disinvestment period whereas it was 5.07 in the post-disinvestment period. The average of this ratio for the whole period accounted for 6.31. The compound annual growth rate of this: ratio in the pre and post-disinvestment period was -4.50 and 11.57 respectively.

The earnings before interest and tax to, interest charges ratio registered in Chemicals and Petrochemical industry shows a fluctuating trend in the pre-disinvestment period. It ranged from 0.46 to 1.31. In the post-disinvestment period also there was a fluctuating trend in Chemicals and Petrochemical industry which ranged from 0.78 in 2001-02 to 4.34 in 2007-08. The average of this ratio was 0.90 in the pre-disinvestment period whereas it was 1.82 in the post-disinvestment period. The average of this ratio for the whole period accounted for 1.36. The compound annual growth rate of this ratio in the pre and post-disinvestment period was 3.65 and 2.93 respectively.

From the above said analysis it can be inferred that the increase in mean value in Steel, Mineral and Metals, Coal and Lignite, Power and Chemical and Petrochemical implies the funds of the company have the ability to cover interest charges for payment. Only

Petroleum -industry showed dismal performance of this ratio in the post-disinvestment period.

Industry-wise Trend Analysis:

In this section efforts have been made to observe the trends in various performance indicator measures using industry data and has been divided into important heads as given below.

PROFITABILITY

In profitability analysis the direction of change over a period of time is of crucial importance. It provides a base to judge whether the practice and prevailing policy of the government is good enough or an improvement is to be made in this regard. Further, anyone trend by itself is not very informative and therefore, a comparison with related trends should also be made by an analyst. Hence, in this part, an attempt has been made to study the profitability trend of selected industry during, before, and after disinvestment period. To study the profitability trend profit before interest and tax has been taken as base.

Steel Industry

In Steel industry the indices of profit before interest and tax in the before disinvestment period marked a fluctuating trend. It fluctuated from 50.82 in 2001-02 to 407.70 in 2007-2008, showing a wide gap of 35.69. The main reason for the sharp increase in profitability in 2001-02 and 2007-08 was due to favourable market conditions for steel products. In the year 2008 there was a negative deviation indicating that the steel industry's performance during that year was poor. The least square trend values of profit before interest and tax show that the average increase in profit before interest and tax comes to Rs.38.99 crores. The difference in' actual and trend values was negative in all the years.

The year 2001-2002 marked a large difference between the actual and trend values among the positive differences. In steel industry, the difference between the actual and trend values of profit before interest and tax during pre-disinvestment period is significant.

Trends in profitability after disinvestment (2001-02 – 2007-08) in steel industry which reflect the indices of PBIT show generally an increasing trend for the first five years of study under review i.e. up to 2007-08. Thereafter it is marked by a fluctuating trend. It

fluctuated from 100 in the year 2002-03 to 841.58 in the year 2008-09 showing a wide gap of 741.58. The increasing trend for the five years connotes that after the introduction of disinvestment measures Steel industry has improved its performance and thereafter there was a fluctuating trend, which may be due to intense competition. The least square trend values of PBIT reveal that the average annual increase in PBIT comes to Rs. 156.58 crores. The positive difference in 2007-08 was very large due to sudden increase in the export earnings. In steel industry after disinvestment the actual and trend values of PBIT are significant.

Minerals and Metals Industry

In Minerals and Metals industry the indices of Profit Before Interest and Tax in the pre-disinvestment period marked a negative growth in all the years except in the years 2002-03 and 2008-09 which has positive values. The main reason for this may be because the intake of Minerals and Metals by the steel industry has become poor during this period. There is a sharp increase in profitability in the year 2002-03. The least square trend of PBIT unfurls that the average annual increase in PBIT worked out was 62.06. The difference between actual and trend value was positive in all periods. The positive difference in 2001-02 was large due to high increase in profit. The difference between the actual and trend values is significant.

In the post-disinvestment period, the indices of PBIT in Minerals and Metals industry were marked with a fluctuating trend in the first five years and thereafter a general increase in trend prevailed. It fluctuated from 66.22 in 2002-03 to 163.87 in 2007-08, with a gap of 97.65. The reason for increase in trend in the second half of the post disinvestment period may be related to increase in the demand for minerals and metals in the domestic as well as international markets. The least square trend values of PBIT bring to light that the average annual increase in PBIT was Rs.145.46 crores. The difference in actual and trend values was negative in 2002-03, 2004-05 and 2006-07 while it was positive in the remaining years. The positive difference in 2002-02 was very large due to the various austerity measures introduced by the government in the public sector enterprises. In Minerals and Metals, during the post-disinvestment period the difference between the actual and trend values of PBIT is significant.

Coal and Lignite Industry

The indices of PBIT in Coal and Lignite industry in the pre-disinvestment period reflected a fluctuating trend all through the period under review. It fluctuated from 50.42 in 2002-03 to 529.03 in 2007-08 showing a wide gap of 478.61 barring 2007-08 and 2006-07 which showed negative deviations. The indices of PBIT had increasing trend in the three years period. For the remaining years there was wide fluctuation from year to year. The least square trend values of PBIT depict that the average annual increase in PBIT was Rs.6I.71 Crores. The difference in actual and trend values was negative. The positive difference in 2002-03 was very large due to intensive implementation of reformation measures introduced by the government. In steel industry the difference between the actual and trend values of profit before interest and tax is significant because the calculated chi-square arrived at 161.10, which is much higher than the table value 21.67 at 1 % level of significance.

The indices of PBIT after disinvestment in Coal and Lignite industry show a fluctuating trend. It fluctuated from 100 in 2002-03 to 554.32 and in 2007-08, showing a wide gap of 454.32. The indices of PBIT increased for the first two years and thereafter decreased in the year 2002-2003. The year 2007-08 marked an increase in trend and it is followed by all years, which implies that in all these three years the supply of products was encouraging. But the indices of PBIT showed a dismal trend in 2004-05 which lasted till 2006-07. The least square trend values of PBIT indicate that the average increase in PBIT comes to Rs. 400.00 crores. The difference between actual and trend values was negative in all the years. The positive result in 2002-03 was the highest due to high increase in the price of products and decrease in the cost of production after disinvestment.

Power Industry

Before disinvestment the indices of PBIT expose an increase in trend all through the years. They ranged from 100 in 2002-03 to 512.03 in 2007-08. The sharp increase in profit before interest and tax was in the year 2005-07 which was due to good market conditions. The least square trend values of PBIT uncover that the average annual increase in PBIT comes to Rs. 157.78 crores. The positive difference in 2005-06 was very large due to opening up of economy, removal of all sorts of hassle like abolition of redtapism (Multiplicity of

procedures) etc. The difference between the actual and trend values of PBIT in the pre-disinvestment phase is significant.

After disinvestment, in Power industry the indices of PBIT increased from a low of 256.09 in 200304 to 597.24 in 2007-08. All through the years there was only an increasing trend. This regular increase in trend implies that the implementation of disinvestment measures by the successive governments at the centre has led to this phenomenon growth of power industry's performance. The least square trend values of PBIT shows that the average annual increase in PBIT comes to Rs.1026.20 crores.

Petroleum Industry

In Petroleum industry the indices of PBIT before disinvestment worked out show that there is an increase in trend barring 2007-08 which showed a negative deviation. In all the remaining years the indices of PBIT showed only positive deviations. There was only a moderate increase in indices of PBIT year after year. The least square trend values of PBIT establish the fact that the average annual increase in PBIT comes to Rs. 340.30 crores. The difference between actual and trend values was negative in the year 2003, 05, and 06, while it was positive in the remaining years.

For the post-disinvestment period of petroleum industry the trend analysis goes as follows.

The indices of PBIT marked an increasing trend throughout the 10 year period of study. During the year 2002-03 there was a sudden gallop in the indices of PBIT which was mainly due to increase in the oil prices in the international market and increase in demand for petroleum products in the cosmetic market from the dependent industries. The least square trend values of PBIT show that the average annual increase in PBIT comes to Rs.2655.57 crores. The following years under study were marked with negative deviations while making comparison between actual and trend values. The positive difference in the year 2003-04 was very large due to the prevalence of better market conditions.

Chemicals and Petrochemical Industry

The indices of PBIT in Chemicals and Petrochemical throughout the pre-disinvestment period marked a fluctuating trend. It fluctuated from 47.17 in 2002-03 to 154.52 in 2007-08 showing a gap of 107.35. By observing the indices of chemicals and Petrochemical from

2002-03 to 2007-08 it can be inferred that in the year 2002 it increased and then decreased in 2003, 04 and 05 and this trend continued all through the years. This was due to the volatile market conditions in the drugs and Petrochemical industry. The least square trend values of PBIT reveals that the average annual decrease in PBIT comes to Rs.78 crores. The difference between actual and trend values was negative in all the years.

The indices of PBIT in chemicals and Petrochemical in the post-disinvestment period under analysis show that barring 2005-06 absolute fluctuation was there in the remaining years. The fluctuation in the indices of PBIT ranged from 100 in the year to 540.02 which resulted in a gap of 440.02. There was a sudden increase in indices in the 2002-2003 which was due to the fact that all the factors that contribute to increase in profit were favourable. The least square trend values of PBIT disclose that the average annual increase in PBIT was Rs. 720.29 crores. The difference in actual and trend values was positive in the years 2002-2003, 2003-04 and 2008-09 while the remaining years showed negative deviations. The positive difference in 2007-08 was very large due to the fact that there was a large scale reduction in overhead expenses.

TRENDS IN PROFITABILITY

With a view to test the significance of variations in the profit before interest and tax between the various sample industries selected and between various years covered under the study, the 'F test based on two way classification has been applied.

Before Disinvestment:

It can be seen from tables 6.14 to 6.17 that before disinvestment calculated value of 'F' ratio of PBIT between the years is 3.54. The table values of 'F' at 1 per cent and 5 per cent levels of significance for V1=9 and V2=45 are 2.69 and 2.02 respectively. Since the calculated values of 'F' between the years are more than the table value at 1 % level and 5% level of significance, the difference in PBIT between the years among different selected industries is significant. Similarly, the calculated value of 'F ratio between industries is 75.48. The table value of 'F at 1 per cent and 5 per cent levels of significance for V.=5 and V2=45 are 3.47 and 2.43 respectively. Since the calculated value of 'F' between industries

is more than the table value at 1 % and 5% level of significance, the difference in PBIT between industries is also significant during the study period.

After Disinvestment:

After disinvestment the calculated value of 'F ratio of PBIT between the years is 2.85. The tables value of 'F' at 1 per cent and 5 per cent levels of significance for V,=9 and V 2=45 are 2.69 and 2.02 respectively. Since the calculated values of 'F between the years are more than the table value at 1 %level and 5% level of significance, the difference in PBIT between years is significant. Similarly, the calculated value of 'F' between industries is 17.35. The table values of 'F at 1 per cent and 5 per cent levels of significance for V1=5 and V2=45 are 3.47 and 2.43 respectively. Since the calculated values of 'F between industries are more than the table value at 1 % and 5% level of significance, the difference in PBIT between industries is significant.

Whole Period:

It could be observed from whole period that the calculated value of 'F' ratio between years is 3.65. The table values of 'F' at 1 per cent and 5 per cent levels of significance for V=19 and V2=2003 are 2.11 and 1.70 respectively. Since the calculated values of 'F between the years are more than the table value at 1 % level and 5% level of significance, the difference in the PBIT between the years is significant. Similarly, the calculated value of 'F' ratio between industries is 17.83. The table values of 'F' at 1 per cent and 5 per cent levels of significance for V1=5 and V2=2003 are 3.21 and 2.31 respectively. Since the calculated value of 'F' between industries is more than the table value at 1 % and 5% level of significance, the difference in PBIT between industries is significant.

Return on Investment and Performance Indicators

In this section an attempt has been made to examine the impact of some parameters of the industries position and performance on the profitability by computing Karl Pearson correlation co-efficient between the profitability measure and the selected ratios viz. Current Ratio (CR), Quick Ratio (QR), Current Assets to Total Assets Ratio (CTTR), Total Assets Turnover Ratio (TATR), Capital Employed Turnover Ratio (CETR) and Fixed Assets to Total Assets Ratio (FTTR) indicating the industries position and performance

before disinvestment (2001-82 to 199091). In this connection Return on Investment Ratio (ROIR) has been taken as the profitability measure as it is the best indicator of overall profitability of the business.

Steel Industry - Before Disinvestment

In Steel industry the correlation co-efficient between ROI and CR is 0.17. It indicates that there is low degree of positive association between current ratio and profitability. The value of correlation co-efficient is found to be insignificant. Secondly, the correlation co-efficient between ROI and QR is 0.251 which is found to be insignificant. It shows that there is a low degree of positive association between the two variables. Thirdly, there is a low degree of positive association between CTTR and ROI as the correlation co-efficient shows 0.054 which is statistically insignificant. Fourthly the co-efficient of correlation between T A TR and ROI is 0.656. It reveals that there is a moderate degree of positive association between profitability and T A TR which is found to be significant at 5% level. Fifthly correlation co-efficient between CETR and ROI is 0.285 which indicates that there is a low degree of positive association between these two variables. This value is found to be insignificant at 5% level. Lastly, the Co-efficient of correlation between ROI and FTTR at -0.012 depicts absence of association between profitability and FTTR. It is also insignificant at 5% level.

Steel Industry - After Disinvestment

Here the impact of some parameters of the company's position and performance on the profitability related to post disinvestment period (2001-02 to 2007-08) by computing Karl Pearson's correlation co-efficient between the profitability measure and the selected ratios indicating the company's position and performance has been studies. Results of steel industry shows that the correlation co-efficient between CR and ROI is 0.414. It unveils that there is a low degree of positive association between the two variables, profitability and CR. The correlation Co-efficient value is found to be insignificant at 5% level. The correlation Co-efficient between QR and ROI is 0.570. It means that there is a moderate degree of positive association between QR and ROI. The correlation co-efficient is found to be insignificant. There is no association between CITR and profitability which is known through the value of correlation co-efficient which is -0.001. The correlation co-efficient is also insignificant at 5% level. The co-efficient of correlation between T A TR and ROI

worked out to 0.485 which establishes the fact that there is a moderate degree of positive association between profitability and T A TR. The coefficient of correlation is insignificant at 5% level. While analysing the association between CETR and ROI the table discloses the correlation co-efficient at 0.02002 which depicts there is a very low degree of positive association between CETR and profitability. The correlation co-efficient between FTTR and ROI shows -0.016which uncloaks the truth that there is very low negative association between FTTR and ROI.

From the above analysis, it can be inferred that out of six ratios used for correlating with ROI, five ratios viz. CR, QR, CITR, T A TR, CETR showed positive association while the remaining FTTR displayed absence of association in the pre-disinvestment period while the post disinvestment period's performance is as follows: All the six selected ratios except CITR and FTTR, registered positive association viz. CR, QR, TATR and CETR. There was negative association between FTTR and ROI. The association between CITR and ROI was absent.

Minerals and Metals Industry - Before Disinvestment

The correlation co-efficient between ROI and CR is 0.219 in Minerals and Metals industry. It reveals that there is a low degree of positive association between current ratio and profitability. The value of correlation co-efficient is found to be insignificant at 5% level. The next ratio under analysis is Quick Ratio which indicates there is a moderate degree of positive association between ROI and QR whose value is 0.532 which is insignificant at 5% level. The correlation co-efficient between CITR and ROI is 0.625. It discloses that there is a moderate degree of positive association between profitability and CITR. It proves that the correlation co-efficient appears to be significant at 1% level. The co-efficient of correlation between CETR and, ROI is 0.166. It connotes there is a low degree of positive association between the two variables viz. profitability and CETR. The Co-efficient of correlation between FTTR and ROI depicts moderate degree of positive association of 0.514. It is also insignificant at 5% level.

Minerals and Metals Industry - After Disinvestment

In Minerals and Metals industry, the correlation co-efficient between ROI and CR is 0.678. This unfolds the fact that there is a moderate degree of positive association between CR

and ROI. The correlation is found to be insignificant at 5% level. There is a low degree of positive association between QR and ROI as the correlation co-efficient shows 0.148, which is statistically insignificant at 5% level. The correlation co-efficient between CITR and ROI is -0.024 which unmasks the truth that there is very low degree of negative association between the two variables, profitability and CITR. The co-efficient correlation is found to be insignificant. The correlation coefficient between TATR and ROI is 0.756. It uncloaks the fact that there 4s moderate degree of positive association between TATR and ROI. The correlation co-efficient between FTTR and ROI is -0.120 which implies there is a low degree of negative association between profitability and FTTR. The correlation co-efficient is found to be insignificant at 5% level.

The overall analysis of Minerals and Metals industry indicates that none of the selected ratios had negative association with Return on Investment (ROI) in the pre-disinvestment period. In the post-liberalisation period positive association between ROI and selected ratios was recorded in CR, QR, T ATR and CETR. It was negative in CITR and FTTR.

Coal and Lignite Industry - Before Disinvestment

In Coal and Lignite industry, the correlation co-efficient between CR and ROI is 0.258. It unfolds the fact that there is a low degree of positive association between profitability and current ratio. The value of correlation co-efficient is established to be insignificant at 5% level. There is a low degree of positive association between QR and ROI which is shown in the table at 0.111. It exposes that the value of correlation Coefficient is found to be insignificant. The next ratio under analysis is CITR. Here there is a low degree of negative association between profitability and CTTR whose value is -0.208. The value of correlation co-efficient appears to be insignificant at 5% level. Correlation co-efficient between TATR and ROI is 0.609. It unfolds that there is a moderate degree of positive association between the variables profitability and TATR. The value of correlation co-efficient is found to be insignificant at 5% level. A moderate degree of positive association is brought to light between CETR and ROI which bears the value 0.578. The correlation co-efficient is established to be insignificant. The correlation co-efficient between FTTR and ROI is 0.235. It unveils the truth that there is low degree of positive association between FTTR and ROI. The value of correlation co-efficient is found to be insignificant at 5% level.

Coal and Lignite Industry - After Disinvestment.

In Coal and Lignite industry, the correlation co-efficient, between CR and ROI is 0.0417. It exposes the truth that there exists very low degree of negative association between ROI and CR. The correlation co-efficient is found to be insignificant. There is a high degree of positive association between QR and ROI. The value of correlation co-efficient is 0.853 which is statistically significant at 1 % level. The correlation co-efficient at -0.290 between CITR and ROI indicates that there is a low degree of negative association. The correlation co-efficient is found to be insignificant. There is a low degree of negative association between TATR and ROI which is proved through the value of correlation co-efficient at -0.208. The co-efficient co-relation is found to be insignificant. The correlation co-efficient between CETR and ROI is 0.159 which shows that there is a low degree of positive association between CETR and ROI. The correlation co-efficient is found to be insignificant. There is a moderate degree of negative association between FITR and ROI which is known through the correlation co-efficient at -0.566. The correlation co-efficient is found to be insignificant.

From the above analysis it is known that positive association was there in CR, QR, TATR, CETR and FTTR while CITR recorded negative association with ROI in the pre-disinvestment period. In the post-disinvestment period, positive association was there in QR and CETR while the remaining ratios viz. CR, CITR, TATR and FTTR registered negative association with ROI.

Power Industry - Before Disinvestment

One of the important among energy producing industries, power shows that there is a moderate degree of positive association between ROI and CR as the correlation co-efficient shows 0.569 which is statistically insignificant at 5% level. The correlation co-efficient between QR and ROI is 0.607. This emphasizes that there is a moderate degree of positive association between QR and ROI which is found to be insignificant at 5% level. There is a low degree of positive association between CITR and FTTR of power industry which is shown in the table as 0.263 which is also found to be insignificant. In case of correlation co-efficient between TATR and ROI, which is laid out at 0.043, there is almost non-existence of association between profitability and T A TR. The value of co-efficient of

correlation is found to be insignificant at 5% level. The value of correlation co-efficient between CETR and ROI is 0.568. This shows that there is a moderate degree of positive association between CETR and profitability.

Power Industry - After Disinvestment

In Power industry, the correlation ' co-efficient between CR and ROI is 0.265 which uncertain the truth that there is a low degree of positive association between CR and profitability. The correlation co-efficient is found to be insignificant. The co-efficient of correlation between QR and ROI is -0.097 which unfurls the truth that there is a negligible degree of association between the variables profitability and QR. The value of correlation co-efficient is found to be insignificant. The correlation co-efficient between CITR and ROI is 0.394. This shows there is a low degree of positive association between CITR and ROI. The value of correlation co-efficient is found to be insignificant. The Co-efficient of correlation of power industry between TATR and ROI is 0.568 which discloses that there is a moderate degree of positive association between TATR and profitability. The last ratio under discussion, establishes the association between FTTR and ROI at -0.594, which means that there is a moderate degree of negative association between profitability and FTTR.

The scenario of Power industry before disinvestment was as follows:

CR, QR, CITR and CETR recorded positive association with ROI whereas no association was' recorded in TATR and FTTR with ROI. In the post- disinvestment period positive association with ROI was recorded in CR, CITR, T A TR and CETR. It was negative and negligible association with ROI in FTTR and QR respectively.

Petroleum Industry - Before Disinvestment

In petroleum industry, the correlation co-efficient between current ratio and ROI is 0.846. It unmasks that there is a high degree of negative association between profitability and current ratio. The value of correlation co-efficient is found to be significant 5% level. Secondly, there is a high degree of negative association between QR and FTTR as the correlation co-efficient shows -0.853.

Petroleum Industry - After Disinvestment

In Petroleum industry, the correlation co-efficient between current ratio and ROI is 0.315 which explains that there is a low degree of negative association between CR and profitability. The correlation co-efficient is found to be insignificant. There is a moderate degree of negative association between QR and ROI which shows that there is a low degree of negative association between profitability and CTTR. The correlation co-efficient is found to be insignificant. The correlation co-efficient between TATR and ROI is 0.733 which displays the information that there is a high degree of positive association between TATR and ROI. The correlation co-efficient between FTTR and ROI is 0.280 which reveals the fact that there is a low degree of positive association between FTTR and Profitability. The correlation co-efficient is found to be insignificant at 5% level.

From the above analysis it is clear that during pre-disinvestment period, positive association with ROI was conspicuous in CTTR, TATR and CETR whereas it was negative in CR and QR. In case of CETR it showed negligible association with ROI. In the post-disinvestment period 3 ratios viz. T A TR, CETR and FTTR recorded positive association with ROI while the remaining CR, QR and CTTR recorded negative association with ROI.
Chemicals and Petrochemical Industry - Before Disinvestment

Chemicals and Petrochemical Industry - After Disinvestment

In Chemicals and Petrochemical the association between CR and ROI is at the lowest positive as the correlation co-efficient is shown at 0.181 which is also statistically insignificant. The Correlation co-efficient between QR and ROI is 0.250 which throws some light that there is a low degree of positive association between profitability and QR. The Correlation co-efficient is found to be insignificant. The coefficient of correlation between CTTR and ROI is 0.228. It leaks out the truth that there is a low degree of positive association between the two variables CTTR and ROI which is also statistically insignificant. There is a low degree of positive association between TATO and ROI as the correlation co-efficient shows 0.330 which is also statistically insignificant.

6.6 Hypothesis Testing:

The problems of disinvestments, in preceding section were discussed in the light of employees related issues; financial issues, legal issues and then finally the problems in finance areas were discussed. The profitability trends and the market response to the disinvestment decisions have been discussed in the preceding paragraphs. The financial statements were scanned and ratios calculated to arrive at conclusion. However to confirm the findings and our calculation, the findings need to tested using acceptable statistics, hence the results have been tested using F-Ratios at 5% level of significance. Major findings are given below.

Table 6.15

Pre and Post Disinvestment Sector-Wise Effect on Equity

Sectors	Equity after Disinvestment		
	F-Ratio Before	F Ratio after	Sig. Level
Steel Industry	2.086	1.827	0.122*
Minerals and Metals	4.38	3.2	0.343*
Coal and Lignite	1.132	9.333	0
Power Industry	0.757	0.745	0.562*
Petroleum	6.345	0.683	0.604*
Chemicals and Petrochemical	3.607	1.861	0.117*
FMCG	0.864	0.945	0.438*

**Sectors, which have insignificant F ratios*
Source: www.nse.india.com

As evident from table 6.15, the effect of disinvestment on equity infusion was insignificant in all sectors except cola and lignite. The apparent reason could be the time frame as these industries have long gestation period and it takes time for returns to start coming in.

Table 6.16
Pre and Post disinvestment Sector –wise yearly Effect

Sectors	F-Ratio Before disinvestment	F-Ratio After disinvestment	Sig. Level
Steel Industry	1.036	0.237	0.238*
Minerals and Metals Industry	1.340	2.672	0.916*
Coal and Lignite Industry	2.098	3.098	0.560
Power Industry	0.789	0.575	0.761*
Petroleum Industry	5.897	0.238	0.609*
Chemicals and Petrochemical Industry	3.212	1.981	0.086*

**Sectors, which have insignificant F ratios,*
Source: www.nse.india.com

Table 6.15 shows the yearly effect of disinvestment on select sectors. This too does not show any significant change. The calculated values of 'F' are all below the table value and it shows that year wise also there was no effect on any of these sectors.

Table 6.17
Pre and Post disinvestment sector-wise Monthly Effect

Sectors	F-Ratio Before disinvestment	F-Ratio After disinvestment	Sig. Level
Steel Industry	0.092	1.239	0.091*
Minerals and Metals Industry	1.238	1.202	0.323*
Coal and Lignite Industry	1.903	9.318	0
Power Industry	0.881	0.871	0.981*
Petroleum Industry	1.349	0.601	0.687*
Chemicals and Petrochemical	0.571	1.761	0.109*

Source: *www.nse.india.com*

Table 6.17 illustrates the monthly effect on monthly basis. It is very clear that when on yearly basis disinvestment has shown insignificant results on equity infusion, there is no significant effect on monthly basis.

Table 6.18

Year wise Relative movement across all industries

Years	F-Ratio before Disinvestment	F-Ratio after Disinvestment	Sig. Level
1991 – 2000	0.979	-	-
2000 – 2001	1.608	-	-
2001 – 2002	1.497	-	-
2002 – 2003	1.508	1.51	0
2003 – 2004	1.508	0.918	0
2004 – 2005	3.175	1.251	0
2005 – 2006	3.787	1.426	0
2006 – 2007	8.811	1.753	0
2007 – 2008	7.091	1.349	0
Average	**2.859125**		

Source: *www.nse.india.com*

As shown in the above table 6.18, right from 1991-2000 to 2007 – 08, the calculated values in each year are far below the table values hence one can conclude that disinvestment did not yield the desired results. Unless the perception of government changes in the minds of investors things may perhaps not improve.

Further analysis of this chapter has been provided in the next chapter.

Chapter - 7

Conclusions and Suggestions

Chapter - 7

Conclusions and Suggestions

As evident from the previous chapters, the disinvestment was half hearted exercise completely banking on its political ramifications. The economic consideration occupied back seat which resulted in a lot of chaos. The preceding chapter has conclusively proved the same with empirical evidence. Hence the following suggestions are offered to improve the impact of disinvestment of public sector enterprises.

Mere disinvestment of PEs is not enough. Entire industries have to be restructured to ensure competitiveness. Even for natural monopolies, it will be necessary to introduce regulation and supervision to reproduce effective competition. Otherwise, privatised enterprises *may not* be able to reap substantial monopoly profits, leaving consumers, worse off. Hence, improvements in efficiency do not follow from disinvestment *per se,* but, from the benefits that increased competition in the market place.

An alternative is to allow foreign capital to bid when PEs are put up for sale. The foreign investors would be in a position to bring in additional technology or management skills. Foreign investment *may* partly ease the scarcity of foreign exchange. But, a possible area of concern could be the element of control exercised by foreign interests on important sectors of the economy.

To remove the loss of revenue and the survival of uneconomic socially necessary services, special provisions have to be incorporated in various laws.

When privatising the public sector, the decision makers should not commit the sins of disinvestment, such as confused objectives, lack of transparency in the privatization process and greater concentration of assets. Moreover, the financial strategy should be sound, it should not be based on an unrealistic labour strategy and be vehicle for bridging budgetary deficits. It should also be kept in mind that there is no political consensus on the move.

Disinvestment should not merely mean indiscriminate disinvestment, but efficiency and competitiveness in industry. The debate of disinvestment is not question of government or private control. It is essentially a question of competitiveness. It is a formidable task requiring shared political leadership and vision.

Evidence suggests that efficiency gains that are needed for improving a country's fiscal condition will materialise only if disinvestment is accompanied by extensive industrial restructuring. This will be best served if the process is allowed to evolve in a phased manner over a period of time.

Keeping in view the above observations relating to the study, the following measures are suggested which would go a long way to improve the profitability of Indian Public Sector Enterprises.

It is essential to have objective performance appraisal criteria far every public sector undertaking. For this purpose, the best way will be to introduce performance audit and revise the performance indicators. Commercial performance must take care of all the objectives and goals. For this purpose, a suitable system of financial and non-financial objectives must he developed. Policymaking should be based on realistic assessment of cost. According to present policies, if size aft economy grows, as grows the expenditure on public sector without adequate return an investment. Hence, the need for review aft the role of public enterprises in this regard is needed.

In public sector there is invariably over run of cost and time. This over run makes the project partly sick at the inception itself. Economy, efficiency and effectiveness in public sector enterprises are need of the hour to improve overall performance of the Indian economy. The incidence of project failure in public enterprises has got to be curtailed.

For revamping the units, there is strong need to assign clear targets to ensure accountability of the management. Necessary budgetary support either equity are loan based should be provided. For each unit, physical and financial targets should be worked out, precisely spelling out how many financial resources are needed from the centre and from raising funds from the public and how much should be these from internal generation of funds. Public barrowings may be suggested for short term and medium term financial requirements of the public enterprises. Also efforts should be made to increase net income

contribution of public sector corporations which is necessary to compete with private sector.

The overstaffing and overhead personnel cost is a major reason of disappointing profitability of Public Sector Enterprises. Employment cost should be controlled through improvement in efficiency and productivity of employees. Extra staff should be diverted to other works. All out efforts should be made to tune up the efficiency and ensure effectiveness in this regard. On the pattern of All India services, a new cadre in the name of public sector services should be organized in which professional managers should be selected. Members of this service should be posted at the top level management of these corporations in place a bureaucrats.

Audit has been playing an important part as an instrument of financial control in public sector undertakings. Reforms are also required in the existing pattern, system and method of audit. A change in the attitude of the audit control is also highly desirable. The auditors have to be trained especially for the purpose reviews of financial accounts and statements of these enterprises which have been established with different objectives and it must be seen that these aims are fulfilled to the best possible extent. More over, a system of efficiency audit is essential. The real need of the hour is efficiency, audit performance appraisal, management audit, achievement assessment in relation to public enterprises along with the built in system of reward cum punishment for managerial efficiency. It would be, of course a devisable for these charged with efficiency audit to be mere forward looking. There is a necessity of reorientation in the approach and efforts should be made to judge the management efficiency properly and far that there should be increased reliance upon the efficiency audit of these enterprises.

The formation of holding companies, to improve financial performance, ensure public enterprises - Government interface, devote greater functional autonomy to subsidiaries, formulate suitable operational policies and attempt greater flexibility in regard to pricing and investment are same measures suggested for efficient functioning of public enterprises. The financial information system, internal and external should be improved in order to strengthen decision making and the one hand and effective financial stability of the public enterprises on the other.

The Bureau of public enterprises should not only act as a clearinghouse of information and ideas relating to the public sector but also constitute a pool of experience which could be shared by various enterprises. It should help also the government in strengthening the working and performance of public sector enterprises.

The management information system should be systematical in order to assist decision making on the one hand and effective control over the public sector undertakings on the other.

The state government may give a cash grant to those undertakings which have accumulated losses and which are likely to improve their profits prospects in future. The central government assist for some sort of cash grants say consessional tax, less power tariff etc to revamp the already loss making units. Another way of helping out the losing concerns is to reconstruct their capital structure, including writing off the capital to the extent of over capitalisation.

Some of the public sector undertakings suffer from underutilisation of their capacities because of non-materialisation of expectations of demand. There should be a systematic and scientific market survey so as to assess the demand correctly before a project is conceived.

Many of the public sector undertakings have been characterized by delay in commissioning of their prospects mainly because of governmental delays in decision making. The Government should constitute a committee of secretaries of the concerned departments to expedite the setting up of projects in public sector, once they are planned and conceived by the government.

A control mechanism, based on initial evaluation of expectation, is possibly best suited for public enterprises. The evaluation of these enterprises should be based on exclusively on financial targets. The methods of exercising accountability and control in public enterprises, currently used, are characterized by a plethora of control agencies. Operating without any real basis for either locating accountability or control has no meaning. The sine-qua for such control that is a set of clearly specified targets and objectives to be handed over to particular unit is absent.

The public enterprises are having poor profitability owing to a variety of factors. One, major factor that has proved to be drag on the efficient functioning of the public enterprises is the multi point interference in its day to day decision making. The idea of Memorandum of Understanding (MoU) represents a genuine desire to give autonomy to the public enterprises management. At the same time, they have to be made accountable for better management and efficient operations of the enterprise. The government should be primarily concerned with overall strategic planning and policy rather than day to day functioning of the enterprises. Its responsibility is to ensure that the public money invested in these enterprises earns an appropriate rate of return and that the functioning of these enterprises is consistent with plan objectives including these related to employment, fair pricing, regional dispersal, of industries and, efficient use of scarce resources. Once the goals have been mutually agreed to, an enterprise should be held strictly accountable for its performance in relation the goal set and there should be an appropriate mechanism for evaluation of performance.

Spell out the mission of the enterprise, derive its broad objectives and obligations and delete objectives which will have to be evaluated with subjectivity.

It is recommended for PSUs to specify objectives which are amenable for performance evaluation and identify possible performance parameters for each of the specific objectives.

Checking the data availability on actual performance with regard to each of the possible performance parameter and specifying performance parameters and their quantifications is a must.

Limitations

No work is free from limitations and this research is no exception. Some of the limitations that the researcher could note are that a study of this kind naturally calls for divulging confidential information by companies which was very difficult to get. Therefore, the researcher relied only on secondary data sources which were available in public domain like prowess database and companies balance sheets. The personal views of experts in a formal manner could not be obtained though thesis covers them in many other forms.

Scope for Further Research

Future researcher can be undertaken in the areas covering opinions of experts. An empirical study would also be a possibility. Many other ways of measuring performance of PSUs are available which too can be studied and the effect of PSUs on competition and their social aspect a also be studied.

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